

**DAUFUSKIE ISLAND UTILITY COMPANY**

**DOCKET NO. 2014-346-WS**

**PRE-FILED TESTIMONY OF CHARLES LOY**

**BEFORE THE SOUTH CAROLINA PUBLIC SERVICE COMMISSION**

**Testimony Prepared: November 15, 2017**

**Hearing Date: December 5, 2017**

**Q: PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

**A:** My name is Charles Loy. My business address is 919 Congress, Suite 800 Austin, Texas 78701. I am a Principal with GDS Associates, Inc. ("GDS"). GDS is a utility consulting and engineering firm with its principal offices in Marietta, GA.

**Q: PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND.**

**A:** I received the degree of Bachelor of Business Administration in Accounting from the University of Texas at Austin. I am a Certified Public Accountant in Texas.

**Q: PLEASE SUMMARIZE YOUR PROFESSIONAL EXPERIENCE.**

**A:** Before joining GDS in June of 2001, I was General Manager of Rates and Regulatory Affairs of AquaSource Inc., a wholly-owned water and wastewater subsidiary of DQE, a publicly traded electric utility located in Pittsburgh, Pennsylvania. My responsibilities at AquaSource included the organization, preparation and management of various rate filings and testimony in connection with rate requests and other regulatory matters in the twelve states in which AquaSource owned and operated utility properties.

1 Before joining AquaSource, I was a Manager of Regulatory Affairs for Citizens  
2 Utilities Company - Public Services Sector. I was responsible for various regulatory  
3 matters, including rate cases, for water/wastewater, gas, and electric services in eight  
4 states. Before joining Citizens, I was a Rate Manager with Southern Union Gas where  
5 I prepared rate filings, cost-of-service studies, and testimony for the various  
6 jurisdictions in Texas and Oklahoma. My utility regulation experience began with  
7 Diversified Utility Consultants as a Senior Analyst, where I assisted in the review and  
8 analysis of various gas, electric, and water company rate filings.

9 **Q: HAVE YOU PREVIOUSLY PRESENTED TESTIMONY BEFORE**  
10 **REGULATORY COMMISSIONS AND/OR OTHER AGENCIES?**

11 **A:** Yes, A list of regulatory proceedings in which I have been involved and presented  
12 expert testimony is attached to my direct testimony as Appendix A. I also presented  
13 testimony in this case for the first hearing in October 2015.

14 **Q: WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS MATTER?**

15 **A:** I have been asked to review the rate increase application of Daufuskie Island Utility  
16 Company (“DIUC”) as submitted and offer testimony on certain aspects of the filing,  
17 particularly accounting and rate base issues and some related expenses, including  
18 depreciation expense, amortization expense, and property tax expense. In this regard,  
19 I have proposed changes to DIUC’s rate base, property tax assessments and  
20 depreciation and amortization expenses, which will impact revenue requirements for  
21 water and for sewer service.

1   **Q:   HAVE YOU PREVIOUSLY TESTIFIED ON SUCH MATTERS BEFORE**  
2       **REGULATORY COMMISSIONS?**

3   **A:**   Yes, I have.

4   **Q:   HAVE YOU REVIEWED DIUC’S FILING AND ITS TESTIMONY IN THIS**  
5       **MATTER?**

6   **A:**   Yes, I have.

7   **Q:   ARE THE RATES PROPOSED BY DIUC CONSISTENT WITH ACCEPTED**  
8       **RATEMAKING PRACTICES AND DIUC’S HISTORY OF RATEMAKING**  
9       **BEFORE THIS COMMISSION?**

10  **A:**   No. DIUC’s proposed rate base reflects two fatal errors:

11       First, DIUC’s proposed rate base (and specifically the net plant component of that  
12       putative rate base) is significantly overstated due to an erroneous \$4.6 million  
13       accounting adjustment made to the books of Haig Point Utility Company<sup>1</sup> (HPUC).  
14       DIUC continues to reflect that improper accounting adjustment and the resulting  
15       increased rate base forward into the present rate case.

16  
17       Second, DIUC significantly overstates net plant by under recording accumulated  
18       depreciation. Said another way, the accumulated depreciation does not reflect straight  
19       line depreciation on the useful life of the plant as required by the National Association  
20       of Regulatory Commission’s (NARUC) Uniform System of Accounts (adopted by this

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<sup>1</sup> Daufuskie Island Utility Company, Inc. (“DIUC”) is the same entity as Haig Point Utility Company, Inc. (“HPUC”). According to the South Carolina Secretary of State records and DIUC’s Commission filings, at some point between 2008 and 2010, Haig Point Utility Company, Inc. changed its name to Daufuskie Island Utility Company, Inc.

Commission for ratemaking purposes) as well as Generally Accepted Accounting Practices or GAAP.

In addition, to the extent the Commission does not recognize the donated property and remove it from DIUC's rate base, the Commission must recognize that DIUC's proposed Rate Base mistakenly assumes its Utility Plant is serving every potential customer in its Daufuskie Island service area. This approach is flawed because DIUC attributes substantial investment in excess capacity to DIUC's current customer base, which has increased little since 2004. Consequently, DIUC's Utility Plant must be reduced to the percentage of DIUC's total Plant that is actually providing service to actual customers and serving DIUC customers.

**Q: WHAT HAS DIUC PROPOSED THAT THE COMMISSION ADOPT FOR ITS RATE BASE?**

**A:** DIUC has proposed a Rate Base of \$3,278,504 for its water system (see, Schedule W-B to Gary C. White's Prefiled Rehearing Testimony ("White Rehearing Testimony")) and \$3,806,971 for its sewer system (see, Schedule S-B to White Rehearing Testimony), for a total rate base of \$7,085,475.

**Q: ARE THESE PROPOSED RATE BASE VALUES VALID?**

**A:** No, they are not. DIUC's prior rate filings (including filings when it was named HPUC) show it has no original cost in a large portion of its Utility Plant because that Plant was donated to DIUC by Haig Point, Inc., the developer of Haig Point. DIUC improperly added the claimed cost of the Utility Plant to its balance sheet as part of its

2005 application for rate relief, Docket No. 2005-34-WS (the “2005 Rate Case”), as an “adjustment”. DIUC’s current Rate Base is largely derived from that 2005 balance sheet adjustment. Rate Base must be sharply reduced in order to remove this improper adjustment and its related effects, because the utility’s 2005 adjustment to Rate Base violated the NARUC Uniform System of Accounts and accepted ratemaking practices.

**Q: PLEASE EXPLAIN THE BASIS FOR YOUR CONCLUSION.**

**A:** DIUC’s asserted Rate Base includes “Property Plant, and Equipment” which was journalized onto DIUC’s books just prior to the 2005 Rate Case. Schedule A-1 to that Application, attached as **Exhibit CEL-R1**, reflects a Plant in Service of \$4,339,598.

**Q: WAS THE PLANT IN SERVICE REFLECTED ON DIUC’S BOOKS PRIOR TO THE 2005 RATE CASE?**

**A:** No, it was not. DIUC made this Plant in Service adjustment on its “Trial Balance” work sheet to record the results of a valuation study of the donated plant DIUC had conducted by the engineering firm of Thomas & Hutton. This study was conducted to support the utility’s 2005 Rate case. (attached as **Exhibit CEL-R2**.) Under the column “Total Year Ended 6/30/04” the utility’s Property Plant and Equipment is \$0.00. Then, DIUC makes an adjustment in the next column increasing this amount to \$4,339,598. Note (2) shows this increase was “To tie to Thomas & Hutton property schedule (\$1,711,549 water and \$2,628,049 sewer).” This study *estimated* the cost the developer, Haig Point, Inc., had expended on the Utility Plant, without the benefit of any supporting contracts or invoices. Since there were no actual invoices or cost records for the plant, Thomas & Hutton estimated the cost of the plant by examining land plats and other records, such as construction bids and check requests.

1   **Q:   DID DIUC PAY FOR THIS UTILITY PLANT?**

2   **A:**   No. Haig Point, Inc. transferred the Utility Plant to DIUC at zero cost, donating the  
3       plant to DIUC after it was created. This is confirmed by the \$0.00 value for Property  
4       Plant & Equipment reflected in the Total Year Ended 6/30/2004 column of **Exhibit**  
5       **CEL-R2**. This \$0.00 value unequivocally establishes that Haig Point, Inc. gave the  
6       plant – donated it – to DIUC. Haig Point’s donation is also demonstrated in DIUC’s  
7       response to South Carolina Office of Regulatory Staff (“ORS”) Audit Request # 20 in  
8       DIUC’s 2011 rate proceeding, Docket No. 2011-229-WS (the “2011 Rate  
9       Proceeding”) (DIUC Response attached as **Exhibit CEL-R3**) This response provides  
10      all deeds and other conveyances through which Haig Point, Inc. transferred ownership  
11      of the land and property comprising water and sewer plant to DIUC. The deeds  
12      clearly show Haig Point, Inc. donated the entire Utility Plant to DIUC for no  
13      consideration.

14   **Q:   WHAT ERROR DID DIUC MAKE WHEN IT PLACED THIS ROUGHLY \$4.3**  
15       **MILLION IN “PROPERTY. PLANT AND EQUIPMENT” ONTO THE**  
16       **UTILITY’S BOOKS?**

17   **A:**   DIUC booked this donated “Property Plant and Equipment” by crediting “Paid-in  
18       Capital,” when it should have credited Contribution in Aid of Construction (“CIAC”).  
19       Note (8) of the Trial Balance for the Year Ended June 30, 2004 (**Exhibit CEL-R2**)  
20       clearly states DIUC increased Paid-in Capital from \$0.00 to \$4,635.782 “[t]o record  
21       plant and equipment and other adjustments to paid-in capital.”

22   **Q:   HOW DID FAILING TO RECORD THIS DONATED PLANT AS A**  
23       **CONTRIBUTION IN AID OF CONSTRUCTION VIOLATE APPLICABLE**

**RATEMAKING PRINCIPLES?**

A: Like all water and sewer utilities regulated by this Commission, DIUC is required to maintain its books and records according to the NARUC Uniform System of Accounts (“USoA”). The NARUC USoA requires that entries to utility plant accounts for plant donated to the utility must be offset by credits to CIAC. NARUC USoA, Accounting Instruction 18, “*Utility Plant - To be Recorded at Cost*” Part D describes how the values of the donated plant should have been initially booked. Part D states:

*“D. Utility plant accounts shall be charged with construction costs (estimated, if not known) of the utility plant contributed by others or constructed by the utility using contributed cash or its equivalent. For contributed utility plant, the accumulated depreciation or amortization account shall be charged with the estimated amount of depreciation or amortization applicable to the property at the time it was contributed to the utility. Account 271 - Contributions in Aid of Construction shall be credited with the net of the amounts charged to the plant and the accumulated depreciation or amortization accounts. For plant constructed using contributed cash or its equivalent, account 271 - Contributions in Aid of Construction shall be credited with the amount of the cash or its equivalent contribution.”*

NARUC defines CIAC as follows:

*“271. Contributions in Aid of Construction A. This account shall include:*

- 1. Any amount or item of money, services or property received by a utility, from any person or governmental agency, any portion of which is provided at no cost to the utility, which represents an addition or transfer to the capital of the utility, and which is utilized to offset the acquisition improvement or construction costs of the utility’s property, facilities, or equipment used to provide utility services to the public. (emphasis added).*

**Q: WHY DO THESE RATEMAKING PRINCIPALS PROHIBIT ADDING THESE GROSS PLANT ADDITIONS TO THE UTILITY’S RATE BASE?**

A. Respected treatises on these ratemaking principles uniformly prohibit the approach taken by DIUC.

“Accounting for Public Utilities” by Robert L. Hahne, states:

*“Ratemaking treatment for contributions in aid of construction is a different situation, because no obligation exists for the utility either to repay any funds received or to*

1 *reimburse parties donating physical property. The general rule is that any such*  
 2 *contributions should be excluded from rate base, since the related plant investment*  
 3 *has not been financed by the utility and customers should not therefore be required to*  
 4 *pay a return on the plant.”*  
 5

6 The Indiana Small Utility Accounting Manual (“ISUAM”), issued by the Indiana  
 7 Utility Regulatory Commission, provides a good explanation as to why donated plant  
 8 must be credited as CIAC and *must not* increase the utility’s Rate Base:

9 *Such donations may come from developers, customers, governmental entities,*  
 10 *or others to upgrade water and/or wastewater systems to accommodate new*  
 11 *customers burdening existing customers. **Plant contributed to a utility***  
 12 ***increases Utility Plant in Service, but does not increase rate base of investor-***  
 13 ***owned utilities because CIAC is used as an offset to the plant.** The practice of*  
 14 *excluding CIAC from rate base also prevents customers from paying twice for*  
 15 *the same assets – e.g., once from paying for a customer’s home and a second*  
 16 *time through utility rates.<sup>2</sup>*  
 17

18 These established rate making principles apply directly to the present situation. If  
 19 DIUC had properly recorded the 2005 plant addition as CIAC, it could then not have  
 20 utilized this donated plant to increase DIUC’s Rate Base. As the ISUAM explains, by  
 21 improperly reflecting this donated Plant as part of its rate base, DIUC has caused its  
 22 customers to “pay twice for the same assets” – once from paying for a customer home  
 23 (or lot), and a second time through waters and sewer utility rates paid to DIUC.<sup>3</sup>

24 **Q. SHOULD THE UTILITY’S PURCHASE OF MELROSE UTILITY COMPANY**  
 25 **IN 2008 CHANGE THE PROPER EXCLUSION OF THIS ORIGINAL PLANT**  
 26 **FROM RATE BASE?**

27 **A.** Not in any way. When HPUC purchased Melrose Utility Company in 2008, HPUC  
 28 was the surviving entity. Shortly thereafter, HPUC changed its name to DIUC, but the  
 29 corporate entity that originally filed for rates in 1986 and for a rate increase in the

<sup>2</sup> *Id.*, (emphasis added).

<sup>3</sup> *Id.*



2005 Rate Case is the same corporation that filed for a subsequent rate increase in the 2012 Rate Case and the present rate case for which we are here today. The books of HPUC are the books of DIUC because they are the same corporation.

**Q. WOULD THE RESULT BE ANY DIFFERENT IF THE 2008 TRANSACTION BETWEEN HPUC AND MELROSE UTILITY COMPANY ENDED IN A NEW CORPORATE ENTITY?**

A. No. Even if that occurred, the CIAC should have been continued on the surviving entity's books as required by NARUC USA Instruction 21. "Utility Plant – Purchased or Sold" which states:

*"A. When utility plant constituting an operating unit or system is acquired by purchase, merger, consolidation, liquidation, or otherwise, the costs of acquisition, including expenses incidental thereto properly includible in utility plant, shall be charged to account 104 - Utility Plant Purchased or Sold.*

*B. The accounting for the acquisition shall then be completed as follows:*

*(4) The amount of contributions in aid of construction applicable to the property acquired, and which the purchaser may be required to record, shall be charged to account 104 - Utility Plant Purchased or Sold, and concurrently credited to account 271 - Contributions in Aid of Construction."*

**Q: IS THERE ANY OTHER EVIDENCE SUPPORTING YOUR CONCLUSION THAT DIUC'S ENTIRE ORIGINAL PLANT WAS DONATED BY THE DEVELOPER AND WAS BEING CARRIED ON DIUC'S BOOKS AT ZERO VALUE PRIOR TO THE UTILITY'S 2004 ANNUAL REPORT TO THE COMMISSION?**

A: Yes. In 1997, International Paper (IP) Inc. wrote off its entire investment in Haig Point Inc. In the "Special Items Including Restructuring and Business Improvement Actions" section of IP's 1999 SEC Form 10-K (Exhibit One), Note C in the write-down discussion section states:

1        *The Company is the developer of a residential golf community named Haig Point at*  
 2        *Daufuskie Island, S.C. As the developer, International Paper was responsible for*  
 3        *operating this community until a specified number of lots were sold, at which time it*  
 4        *would turn the community over to the homeowners. The net book value of our*  
 5        *investment in Haig Point was \$13 million at June 30, 1997. Given the continuing*  
 6        *operating losses, \$5 million in 1997, an updated marketing study, and the inability to*  
 7        *find a buyer for this investment, we concluded that the investment was permanently*  
 8        *impaired and wrote it down to zero. The operating loss in 1998 was \$500,000.*  
 9        *(Emphasis added).*  
 10

11        At the time of IP's 1999 SEC filing, IP still owned Haig Point, Inc., whose assets  
 12        continued to include the stock and plant of HPUC (now renamed DIUC). If either  
 13        Haig Point, Inc. or HPUC were holding utility Plant worth an amount between \$4 and  
 14        \$5 million, IP would have reflected that value in subsequent SEC filings, either  
 15        expressly, or by showing some, as opposed to \$0.00, value. IP's SEC 1999 filing  
 16        suggests that it gained a significant economic benefit by offsetting taxable income  
 17        with the reported write offs of the development investment and subsequent operating  
 18        losses. Treating the utility's Plant adjustment as anything other than donated Plant  
 19        (CIAC) would materially contradict Haig Point's prior SEC and, we believe, IRS  
 20        filings.

21        **Q: IS THERE ANY EVIDENCE THAT LOT OWNERS PAID FOR DIUC'S**  
 22        **ENTIRE ORIGINAL PLANT?**

23        A: Yes. When HPUC sought to establish water and sewer rates before this Commission in  
 24        Docket No. 87-333-W/S, its rate application sought rates that would recover only the  
 25        utility's operating costs. The capital costs associated with Plant, Property and  
 26        Equipment were to be underwritten by lot owners. In other words, HPUC never  
 27        intended to recover the initial utility infrastructure costs through utility rates. This is

demonstrated by the financials associated with HPUC's 1987 Rate Case application,  
attached hereto as **Exhibit CEL-R4**.

**Q: IS RECORDING THIS DONATED PLANT AS CIAC AND EXCLUDING IT  
FROM DIUC'S RATE BASE CONSISTENT WITH PRIOR RULINGS OF  
THIS COMMISSION?**

**A:** Yes. The Commission has addressed this situation on prior occasions. The following  
are just two examples of Commission rulings directly addressing this point and  
requiring donated Plant to be recorded as CIAC and excluded from the utility's Rate  
Base:

*Contributions in aid of construction include amounts donated or contributed in cash, services, or property from individuals, states, municipalities, or other governmental agencies, and others for construction purposes. A utility is usually not permitted to include contributions in aid of construction in its rate base and, therefore, cannot earn a return on it. The underlying principle for exclusion of contributions from rate base is that since the utility itself has made no investment in contributed property, it has not financed the cost of contributed property and has no cost of capital related to contributed property. In Re: Application of Commodore Utility Corp., DOCKET NO. 82-202-W/S; ORDER NO. 82-580 (Aug. 27, 1982)*

*Generally, in ratemaking proceedings, a calculation of the utility's rate base is made. A rate base is comprised of the total net value of a utility's tangible and intangible capital or property value on which the utility is entitled to earn a reasonable rate of compensation. The Company's application did not provide a rate base calculation since the Company had no original cost in its plant, which was completely donated by the developer of the subdivision. As a consequence, the staff's audit report contained no rate base calculation. The Commission finds the staff's approach to be reasonable in the context of this proceeding. IN RE: Petition of Ladson Utilities, Inc. Docket No. 76-587 -S, Order No. 77-176, (Apr. 25, 1977)*

**Q: HOW WOULD PROPERLY REFLECTING THE 2005 ADDITION OF  
UTILITY PLANT DETAILED IN THE VALUATION STUDY AS CIAC,  
INSTEAD OF PAID-IN CAPITAL, CHANGE DIUC'S PROPOSED RATE  
BASE?**

**A:** Table 1 below shows the breakdown of DIUC's proposed gross plant in rate base between CIAC (donated plant) and DIUC's actual utility's rate base investment in plant. As shown, a significant portion of total requested gross plant is donated.

**TABLE 1**

<b>BREAK DOWN OF GROSS PLANT NEEDED TO COMPLY WITH NARUC REQUIREMENTS</b>		
<b>Total Requested Gross Plant</b>	<b>Gross Donated Plant</b>	<b>Gross Plant In Rate Base</b>
\$8,139,261	=	\$4,414,059 + \$3,725,203

However, as I discussed at the beginning of this testimony, the net plant values DIUC is presently asserting are artificially high because plant representing excess capacity has not been depreciated according to the guidelines of NARUC USoA. Table 2 below shows how DIUC's current - artificially low - accumulated depreciation must be corrected to comply with the applicable NARUC requirements.

**TABLE 2**

<b>INCREASE ACCUMULATED DEPRECIATION TO COMPLY WITH NARUC STRAIGHT-LINE REQUIREMENTS</b>			
	<b>Total Requested Accum. Depr.</b>	<b>Increase to NARUC Straight-Line *</b>	<b>Total NARUC Straight-Line Accum. Depr.</b>
1 DIUC Funded Accum. Depr.	(\$160,306) +	(\$703,574) =	(\$863,880)
2 Donated Plant Accum. Depr.	(\$675,776) +	(\$1,516,378) =	(\$2,192,154)
3 Total Accumulated Depreciation	(\$836,081) +	(\$2,219,952) =	(\$3,056,033)
*Represents depreciation on excess capacity and donated plant			

**Q WHY IS THE COMPANY NOT DEPRECIATING ITS PLANT ACCORDING TO NARUC?**

**A:** The Company is depreciating its plant based on a highly unconventional and, in my experience, unheard of approach which it calls the “Complete System” methodology. This methodology depreciates plant according to its use, not its useful life as required by the NARUC USOA. Saying it another way, this methodology defers depreciation on the plant that is not “used and useful”, a key rate making principle. This unsupported methodology improperly suggests that the service lives of plant representing excess capacity are somehow frozen in time and artificially extended until fully serving customers. If uncorrected, this would cause the utility’s relatively-few customers to pay for the entire investment designed to serve a far larger population, but not provide these customers the benefit of straight-line accumulated depreciation. In risk terms, this highly non-standard approach to ratemaking unfairly transfers the risk of low customer build out – a risk which should clearly be borne by utility shareholders - to utility customers.

**Q: EXPLAIN THE GUIDELINES FOR DEPRECIATION AS REQUIRED BY THE NARUC USOA.**

**A:** The NARUC USOA requires straight-line depreciation over the useful life of plant in service:

*"Straight-line method" as applied to depreciation accounting means the plan under which the service value of property is charged to operating expenses (and to clearing accounts if used), and credited to the accumulated depreciation account through equal annual charges during its service life. Estimates of the service life and salvage will be reexamined periodically and depreciation rates will be corrected to reflect any changes in these estimates*

1 The Company claims that its depreciation methodology isolates customers from  
2 developer risk in that they are not paying rates that include depreciation on plant that  
3 is not “used and useful”, as required by rate making principles. This is totally false.  
4 Rather than isolating customers from developer risk, it places developer risk squarely  
5 on the shoulders of customers, particularly in terms of an inappropriately high rate  
6 base.

7 In this case DIUC estimates that only 47% of water plant and 35% of the sewer plant  
8 is serving the current level of DIUC customers. The methodology asserts that the plant  
9 not serving customer is not “used and useful” and, therefore, it should not be  
10 depreciated. Only part of the depreciation expense that represents the useful life is  
11 expensed and placed in accumulated depreciation on the books of the Company.  
12 However, the NARUC publication “Public Utility Depreciation Practices” specifically  
13 disallows this approach:

14 *“It is essential to remember that depreciation is intended only for the purpose of  
recording the periodic allocation of cost in a manner properly related to the useful life  
of the plant. It is not intended, for example, to achieve a desired financial objective or  
to fund modernization programs.”*

15 In summary, the Complete System methodology pursues a desired financial outcome  
16 by delaying the appropriate level of depreciation expense on its books. This approach  
17 results in an immediately higher rate base and rates, and even higher rates over time as  
18 customers are required to pay for deferred depreciation which should have properly  
19 been the burden of the utility’s shareholders. The same NARUC publication  
20 specifically warns against this:

21 *“If a commission prescribes rates which yield depreciation accruals that are too low,  
22 the revenue requirement in the short run may be lower. But the requirements for*

1 *income taxes and return may offset the apparent savings in depreciation expense, so*  
 2 *service rates in the long run may be higher.”*

3  
 4 Thus, while the lower depreciation rates may be desirable for rate setting, if the lower  
 5 rates are employed for an extended period of time, as in this case, the short run  
 6 benefits of lower depreciation rates boomerang into much higher utility service rates.  
 7 Table 3 below shows that the \$2.3 million of excess plant, due to an extended period  
 8 of low depreciation rates (shown in Table 2 above), produces a much higher return and  
 9 property taxes than the depreciation “savings” claimed under the Company’s flawed  
 10 methodology.

11 **TABLE 3**

<b>TRUE RATE IMPACT OF COMPLETE SYSTEM METHODOLOGY</b>		
1	Excess Rate Base (Additional Straight-Line Accumulated Depreciation per Table 2)	\$2,219,952
2	Return @ 8.73%	\$193,802
3	Income Taxes @ 37.3%	\$81,616
4	Property Taxes @ 2.63%	\$58,274
5	Total Excess Return & Taxes	\$333,691
6	Less: Complete System Depreciation Expense Savings	\$82,242
7	Proposed Compete System Overcharges to be Included in Rates	<b>\$251,449</b>

12  
 13 The NARUC publication “Public Utility Depreciation Practices” additionally points  
 14 out:

*“If depreciation rates are set so low that the revenue requirement fails to repay the capital invested in a group of property by the end of its service life, confiscation takes place or the unpaid cost remains in the rate base until amortized or expensed.”*

1 This passage specifically warns that under depreciating plant or extending plant  
2 beyond its useful life will result in the plant not being fully recovered by the utility.  
3 However, if DIUC is allowed to earn a prolonged return on older, under depreciated  
4 *donated* plant, recovery of its original cost is not a concern. On the contrary, DIUC  
5 will more than recover its actual costs.

6 **Q: WHAT WOULD BE THE APPROPRIATE WAY FOR THIS COMMISSION**  
7 **TO SET RATES FOR DIUC GIVEN THE WAY DIUC ADDRESSED**  
8 **DEPRECIATION?**

9 **A:** The full straight-line depreciation expense must be recorded to *accumulated*  
10 depreciation in order to comply with NARUC and rate making guidelines. There is no  
11 basis for unfairly burdening DIUC customers by adopting unconventional ratemaking  
12 hocus-pocus such as the Complete System methodology. All that is needed is to rely  
13 on well-established used and useful utility accounting principles. This involves  
14 proportionately allocating all components of Rate Base inclusive of net depreciation,  
15 that is, depreciation of all non-donated plant, on the basis of customer count,  
16 consistent with past Commission practice.

17 **Q: HOW WAS ACCUMULATED DEPRECIATION CALCULATED IN THE 2005**  
18 **CASE WHICH USED A STIPULATED COMPLETE SYSTEM**  
19 **METHODOLOGY?**

20 **A:** The rate base schedules included with the Commission's Order approving the  
21 settlement reflect accumulated depreciation levels comparable to what I am proposing.  
22 Further, it illustrates how the Complete System methodology has grossly distorted the  
23 Company's rate base. Table 4 below shows that despite adding \$2.6 million of plant



over the last ten years, accumulated depreciation is 57% *lower* than the accumulated depreciation used in the 2005 settlement with the ORS. Further, it shows net plant has putatively doubled while the number of customers receiving service has not grown much at all.

**TABLE 4**

	<b>2005 Settlement</b>	<b>2015 Rate Case</b>
1 Gross Plant	\$5,527,117	\$8,139,261
2 Accumulated Depreciation	<u>(\$1,815,761)</u>	<u>(\$777,854)</u>
3 Net Plant	<b>\$3,711,356</b>	<b>\$7,361,407</b>

**Q: WHAT DO YOU RECOMMEND REGARDING THE ACCUMULATED DEPRECIATION BALANCES PROPOSED BY THE COMPANY?**

**A:** The accumulated depreciation amounts recorded by the Company should be adjusted to comply with NARUC and rate making principles as presented in Table 2 above. Table 5 below combines values in Tables 1 & 2 to arrive at the appropriate NARUC net plant values to place in rate base. Note that booked CIAC associated with donated plant has been amortized consistent with the plant it relates to, to comply with NARUC.

**TABLE 5**

<b>COMBINE TABLES 1 &amp; 2 TO ESTABLISH NARUC RATE BASE</b>			
	<b>Gross Plant</b>	<b>Less: Accumulated Depr./Amort.</b>	<b>Net Plant</b>
	<b>( A )</b>	<b>( B )</b>	<b>( C ) = ( A ) + ( B )</b>
1 Plant In Service	\$8,139,261	(\$3,056,033)	\$5,083,228
2 Less: Donated Plant	<u>(\$4,414,059)</u>	<u>\$2,192,154</u>	<u>(\$2,221,905)</u>
3 Plant in Rate Base	<b>\$3,725,203</b>	<b>(\$863,880)</b>	<b>\$2,861,323</b>

**Q: WHAT ARE ADJUSTMENTS TO THE COMPANY'S REQUESTED DEPRECIATION AND CIAC AMORTIZATION AMOUNTS ARE REQUIRED TO REFLECT NARUC STRAIGHT LINE DEPRECIATION?**

**A:** Table 6 below summarizes the adjustments to depreciation expense and CIAC amortization by water plant and sewer plant.

**TABLE 6**

<b>ADJUST DEPRECIATION EXPENSE AND CIAC AMORTIZATION TO REFLECT NARUC STRAIGHT-LINE</b>			
<b>Description</b>	<b>Requested</b>	<b>Straight-Line</b>	<b>Adjustment</b>
<u><b>Water Plant</b></u>			
1 Depreciation Expense	\$46,446	\$86,325	\$39,879
2 Amortization of CIAC	(\$4,508)	(\$44,496)	(\$39,988)
3 Total	\$41,938	\$41,829	(\$109)
<u><b>Sewer Plant</b></u>			
4 Depreciation Expense	\$54,993	\$106,142	\$51,149
5 Amortization of CIAC	(\$1,665)	(\$62,923)	(\$61,258)
6 Total	\$53,328	\$43,219	(\$10,109)

**Q: PLEASE ADDRESS YOUR PROPOSED ADJUSTMENT TO THE ANNUAL PROPERTY TAX AND THE BACK TAXES OR PAST PROPERTY TAXES?**

**A:** Table 7 below presents my recalculation of property taxes, assuming my recommended changes to rate base. If the Company had followed GAAP, NARUC and regulatory accounting principles, the annual property taxes would be \$116 thousand lower than the Company's requested amount. Proper regulatory accounting would also reduce the back taxes owed to about \$125 thousand or \$402 thousand less

than requested.

**TABLE 7**

ESTIMATED PROPERTY TAXES WITH CIAC				
	2011	2012	2013	2014
1 Net Plant	\$4,703,358	\$4,552,231	\$4,526,446	\$5,083,228
2 Net CIAC	(\$2,773,722)	(\$2,678,977)	(\$2,544,518)	(\$2,838,523)
3 Taxable Base	\$1,929,635	\$1,873,253	\$1,981,928	\$1,981,928
4 Assessment Ratio	10.5%	10.5%	10.5%	10.5%
5 Millage Rate	0.197540	0.200850	0.240033	0.197540
6 Tax Due	\$40,024	\$39,506	\$49,951	\$41,109
7 Total Back Taxes			\$124,756	
8 Requested 2014			\$526,864	\$192,301
9 Adjustment Back Taxes/Test Year			(\$402,108)	(\$115,995)

**Q: IF THE COMMISSION REJECTS YOUR RECOMMENDATION TO RECOGNIZE THE DONATED PLANT AND REMOVE IT FROM RATE BASE, DO YOU HAVE AN ADDITIONAL RECOMMENDATION?**

**A:** Yes. DIUC's rate base must be adjusted to reflect the level of plant that is actually in service. In the 2005 rate case, ORS applied this concept in its recommendations in its Audit Report<sup>4</sup>. ORS proposed removing "plant in service based on most recent system utilization factors of 40.94% for water and 34.16% for sewer".<sup>5</sup> The utilization factors were developed by the Company to identify the portion or percentage of the water and

<sup>4</sup> See Docket No. 2005-34-W/S, Testimony of Sharon G. Scott, p 24, Audit Exhibit SGS-11, relevant portions attached as **Exhibit CEL-R5**.

<sup>5</sup> See *Id.*, Note (G) to ORS Audit Exhibit SGS-11.

1 sewer systems that are “used and useful”. In the 2005 Rate Case test year, the utility  
2 was serving only 40.94% of the potential customers its water system could serve, and  
3 only 34.16% of the potential customers its sewer system could serve. ORS applied the  
4 utilization factors to the Company’s proposed plant by these percentages, which  
5 resulted in a \$2,277,603 reduction in that component of the utility’s rate base.

6 **Q: DO YOU BELIEVE THIS ADJUSTMENT IS APPROPRIATE?**

7 **A:** Yes. It follows the key rate making concept of “used and useful” and is consistent  
8 with my earlier discussion in this testimony. This adjustment assures that a utility’s  
9 customers do not bear the economic burden of excess capacity and possibly a  
10 developer’s imprudent decision to overbuild a water or sewer system.

11 **Q: PLEASE EXPLAIN.**

12 **A:** A developer has the ability to either construct a utility system in phases, as the  
13 development proceeds, or construct a much larger system initially - one that could  
14 serve the entire development, if and when it is entirely built-out. Here, the developer  
15 decided to initially build a system large enough to serve a fully-built out Haig Point  
16 development, before determining whether the development would even be a success.  
17 In 2004, roughly twenty years after development of the Haig Point community began,  
18 system utilization was only 41% (water) and 34% (sewer). ORS’s proposal to reduce  
19 the utility’s gross plant to these actual utilization percentages ensured that current  
20 customers did not bear an undue economic burden otherwise caused by the  
21 developer’s decision to construct such a large system at the beginning of the  
22 development.

**Q: HOW HAS UTILIZATION OF DIUC'S UTILITY SYSTEM CHANGED SINCE THE 2005 RATE CASE?**

**A:** System utilization has not changed materially in the last 12 years. Since 2004, the water system utilization has increased from 41% to 47% and sewer system utilization has increased from 34% to 35%. This essentially immaterial growth in system utilization over the twelve years period demonstrates that the developer grossly overbuilt the water and sewer systems when it began developing Haig Point in the 1980s. Including all the plant in Rate Base, as proposed by DIUC, would unfairly burden DIUC's customers and unfairly compensate DIUC. DIUC should not be allowed to charge rates that cause DIUC's customers to bear the burden of the developer's initial decision to build out the entire system when future success of the development was unknown.

**Q: DO ACCEPTED RATE MAKING PRINCIPLES CALL FOR REDUCING PLANT TO REFLECT THE ACTUAL SYSTEM UTILIZATION?**

**A:** Yes. The adjustment follows the well-known rate making concept that only plant that is "used and useful" should be included in rate base. Numerous authoritative texts on utility ratemaking cite this principle or rule. For example, "Accounting for Public Utilities" by Robert L. Hahne, states:

*"Only plant currently providing service or capable or providing utility service to the consuming public is allowed in rate base."*

"The Regulation of Public Utilities" by Charles F. Phillips Jr. states:

*"For decades, used and useful referred to needed capacity; that is, a determination as to whether a plant was actually used in service and was useful in providing service."*

1 “Principles of Water Rates, Fees, and Charges” also known as the “Manual of Water  
2 Supply Practices M1” published by the American Water Works Association states:

3 *“The primary issue related to including plant in the rate base is whether the plant is*  
4 *used and useful in providing utility service.”*

5  
6 Further, the 2005 ORS adjustment agrees with the “Rate Case and Audit Manual”  
7 developed by NARUC to assist utility commission staffs with rate case audits which  
8 states:

9 *“In reviewing specific rate base items, the auditor will want to continually be*  
10 *considering the concept of used and useful. This principle is widely adopted by*  
11 *regulatory commissions and requires that plant be functioning and necessary to be*  
12 *included in the revenue requirement. Plant that is considered to be excessive may not*  
13 *be appropriate for inclusion in rates at this time.” (Emphasis added)*  
14

15 **Q: DO YOU RECOMMEND MAKING THE SAME ADJUSTMENT TO PLANT**  
16 **AS RECOMMENDED BY THE ORS IN THE 2005 RATE CASE?**

17 **A:** Yes, in the event that the Commission does not take into account the donated property  
18 in DIUC’s rate base. The same factors supporting ORS’s proposed adjustment in 2005  
19 apply today with even more force. As discussed above, customer growth over the last  
20 twelve years has been materially insignificant. Like in 2005, DIUC’s system today is  
21 largely unutilized. Table 8 shows how the booked plant values must be reduced to  
22 reflect actual utilization and demonstrates how that reduction is computed.  
23

1

TABLE 8

APPLY CURRENT SYSTEM UTILIZATION FACTORS TO DUIC GROSS PLANT AND ACCUMULATED DEPRECIATION				
	UPIS Account	Total Pro Forma Gross Plant	Percent of Unutilized Plant	Plant Not Utilized
		A	B	C = -A x B
<b><u>Water Gross Plant</u></b>				
1	Wells	307 \$794,865	52.8%	(\$419,848)
2	Misc. Equipment - Source	339 \$9,104	52.8%	(\$4,809)
3	Water Treatment Plant	320 \$321,643	52.8%	(\$169,892)
4	Distribution Reservoirs	330 \$869,379	52.8%	(\$459,206)
5	T&D Plant	311 \$75,414	52.8%	(\$39,834)
6	Mains, Hydrts, Serv	331 \$1,509,688	52.8%	(\$797,417)
7	Meters	334 \$8,786	52.8%	(\$4,641)
8	100% Utilized Plant	\$361,078	0.0%	\$0
9	Total Water Gross Plant	\$3,949,957		(\$1,895,646)
<b><u>Water Accumulated Depreciation</u></b>				
11	Plant Non-Utilized Accum. Depr.	\$1,236,245	-52.8%	\$652,985
12	Plant 100% Utilized Accum Depr.	\$41,315	0.0%	\$0
13	Total Water Accumulated Depreciation	\$1,277,560		\$652,985
14	Total Water Net Plant	\$2,672,397		(\$1,242,661)
<b><u>Sewer Gross Plant</u></b>				
15	Collection Mains	361 \$2,118,279	64.5%	(\$1,366,925)
16	WW Pumping Plant	371 \$158,189	64.5%	(\$102,079)
17	WW Treatment & Disposal Plant	380 \$259,462	64.5%	(\$167,431)
18	Plant Sewers	381 \$818,187	64.5%	(\$527,976)
19	Outfall Sewer Lines	382 \$66,704	64.5%	(\$43,044)
20	Power Generation Equip	355 \$4,632	64.5%	(\$2,989)
21	100% Utilized Plant	\$763,852	0.0%	\$0
22	Total Sewer Gross Plant	\$4,189,304		(\$2,210,445)
<b><u>Sewer Accumulated Depreciation</u></b>				
23	Plant Non-Utilized Accum. Depr.	\$1,741,238	-64.5%	\$1,123,621
24	Plant 100% Utilized Accum Depr.	\$37,235	0.0%	\$0
25	Total Sewer Accumulated Depreciation	\$ 1,778,473		\$1,123,621
26	Total Sewer Net Plant	\$2,410,831		(\$1,086,824)
27	TOTAL NET PLANT	\$5,083,228		(\$2,329,485)

2

And Table 9 shows both the effect on rate base that removing donated plant would have (without any plant utilization adjustment), and the effect on rate base of applying a plant utilization adjustment.

**TABLE 9**

<b>PLANT UTILIZATION ADJUSTMENT</b>		
	<b>With Removing Donated Plant</b>	<b>Without Removing Donated Plant</b>
1 Gross Plant	\$8,139,261	\$8,139,261
2 Accumulated Depreciation	(\$3,056,033)	(\$3,056,033)
3 Net Plant	\$5,083,228	\$5,083,228
4 CIAC	(\$4,414,059)	\$0
5 Accumulated Amortization	\$2,192,154	\$0
6 Net CIAC	(\$2,221,905)	\$0
7 Unutilized Plant/CIAC	\$0	\$ (2,329,485)
8 Total	<b>\$2,861,323</b>	<b>\$2,753,743</b>

Again, this demonstrates that the developers of this system took the risky approach of completely building out the water and sewer system in the 1980s. That is, they laid water distribution and sewer collection mains to every available lot in the development and constructed a 640,000 gallon per day sewer treatment plant, rather than designing their infrastructure and treatment plant to be built in phases, if and when lot sales progressed. The bulk of the donated plant amounts consist of water distribution and sewer collection mains. Customers should not be forced to pay for the developer's bad business decision, especially when the current customer base is not using that plant. If the Commission decides not to reduce DIUC's gross plant to eliminate the donated plant, it should apply the current system utilization factors to DIUC's entire (although,



now, overstated) Gross Plant, and reduce DIUC's Rate Base accordingly.

**Q. HAVE THE POAS AND ORS LEARNED ANYTHING THROUGH DISCOVERY IN THIS RATE CASE THAT FURTHER SUPPORTS THE COMMISSION MAKING THESE PROPOSED ADJUSTMENTS TO RATE BASE?**

**A:** Yes. DIUC disclosed how much the new shareholders of CK Materials, LLC (CK Materials) paid to Haig Point, Inc. for DIUC in 2008, which I attach as **Confidential Exhibit CEL-R6**. This document shows the purchase price for HPUC was **CONFIDENTIAL** plus closing costs of **CONFIDENTIAL**. The price paid by CK Materials covers the plant investment Haig Point, Inc. made in 2005. The sale to CK Materials took place in roughly 2008, or about three years after the Commission approved a rate base of around \$5.2 million. This purchase price made it completely clear the developer donated the plant to the utility which, as discussed above, proves DIUC's asserted Rate Base is dramatically overstated.

Regardless of the reason, whether there is donated plant or a significant amount of unutilized plant, the fact of the matter is that there is too much plant in rate base. Proper regulatory accounting, as prescribed by NARUC and numerous other regulatory authorities, support this argument.

**Q: WHY DIDN'T THE POAS CHALLENGE DIUC'S ASSERTED RATE BASE IN PRIOR PROCEEDINGS?**

**A:** While the POAs raised concerns about the utility's Rate Base calculation in prior proceedings, it was unnecessary to waste Commission and party resources seeking a

final Commission ruling on Rate Base issues because the parties reached a settlement in both the 2005 and 2012 Rate Cases. Moreover, as set out below, no rate base established in particular rate case becomes a “precedent” that cannot be challenged in a subsequent Docket.

**Q: DOES THE POA’S OPPOSITION TO DIUC’S ASSERTED RATE BASE CONTRADICT THE SETTLEMENT THE POAS REACHED WITH DIUC AND ORS IN 2012?**

**A:** No. In fact, the Settlement Agreement approved by the Commission in the 2012 Rate Case establishes that the Rate Base reflected in that proceeding cannot be used as a precedent in later rate cases. The Settlement Agreement expressly authorizes the POAs and ORS to challenge DIUC’s propose Rate Base today.

In their settlement of the 2012 Rate Case, ORS and the POAs negotiated the following Settlement Agreement safeguard:

*2. In the current proceeding, the Parties disputed the adjustment in rates, fees, and charges that would be necessary to provide DIUC a fair return on its investment as well as the rate of return and other matters.*

*3. The Parties agree and stipulate that DIUC shall be allowed to set rates and charges on a rate base of \$5,000,000. **This stipulated rate base shall not be binding in future proceedings, instead those proceedings will be determined based on the evidence presented in each docket and the applicable law.***

*...  
13. The Parties agree that this Settlement Agreement does not constrain, inhibit or impair in any way the arguments or positions they may choose to assert in future proceedings.*

*(Emphasis added) The Commission approved the Settlement Agreement, including this provision, through Order No. 2012-515.*

1 The Settlement Agreement also embodies the principle that each rate case is always  
2 determined based on the evidence presented therein and applicable law.

3  
4 **Q: DOES THIS CASE’S CURRENT PROCEDURAL POSTURE ALLOW THE**  
5 **POAS AND ORS TO CHALLENGE DIUC’S ASSERTED RATE BASE IN**  
6 **THIS REHEARING?**

7 **A:** Yes, the parties are free to challenge DIUC’s asserted Rate Base. The South Carolina  
8 Supreme Court remanded this rate case to the Commission “for a new hearing as to all  
9 issues” and “for a de novo hearing.”<sup>6</sup> Following remand, DIUC argued the Standing  
10 Hearing Officer must prohibit the parties from filing new testimony on anything other  
11 than property taxes, plant in service, bad debts, management fees, and rate case  
12 expenses – all issues that could only increase DIUC’s proposed rates. DIUC also  
13 asserted the Supreme Court opinion did not allow any additional discovery.

14  
15 After hearing arguments from all parties, the Standing Hearing Officer denied DIUC’s  
16 position, ruling:

17 *“the [Supreme Court’s] ‘de novo’ terminology clearly means that the Court intended*  
18 *that the Commission hold a new hearing on all issues in the case. Further, since the*  
19 *Commission will hold a new hearing on all such issues, the Commission’s discovery*  
20 *rules are clearly applicable.”*<sup>7</sup>

21 It is therefore appropriate for the POAs and ORS to present evidence and testimony  
22 demonstrating why DIUC’s proposed Rate Base is flawed and urging the Commission

<sup>6</sup> See Daufuskie Island Utility Company, Inc. v. South Carolina Office of Regulatory Staff, 803 S.E. 2d 280 (2017).

<sup>7</sup> See Order No. 2017-59-H. DIUC filed a motion for the Hearing Officer to reconsider its ruling, which the Hearing Officer subsequently denied. See, Order No. 2017-61-H.

1 to make the resulting necessary adjustments in setting DIUC's new rates.

2 **Q: DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

3 **A:** Yes, it does. I am prepared to respond to any questions the Commission or other  
4 parties may have.

## **APPENDIX A**

**LIST OF TESTIMONY, EXPERT PROCEEDINGS, AND ENGAGEMENTS BY  
CHARLES E. LOY, CPA**

## Schedule A-1

**HAIG POINT UTILITY COMPANY, INC.****Balance Sheet (Water and Sewer)**

<b><u>Assets</u></b>	<b><u>6/30/2004</u></b>
Accounts Receivable	87,320
Allowance for Doubtful Accounts	(27,612)
Construction in Progress	1,116,695
Plant in Service	4,339,598
Accumulated Depreciation	<u>(240,082)</u>
Total Assets	<u><u>\$5,275,919</u></u>
 <b><u>Liabilities &amp; Equity</u></b>	
Accounts Payable	\$405
Advances from Associated Co.	1,046,898
Accrued Taxes	14,969
Contributed in Aid of Construction	464,000
Accum. Amortization of CIAC	(82,740)
Common Stock	2,000
Paid in Capital	4,635,782
Retained Earnings	<u>(805,395)</u>
Total Liabilities & Equity	<u><u>\$5,275,919</u></u>

Haig Point Utility Company, Inc.  
Trial Balance  
Year Ended June 30, 2004

	General Ledger					Adjustments	Transfers From (To) Wastewater Company	Adjusted 6/30/04
	6/30/03	12/31/03	6 mos ended 12/31/03	6/30/04	Total Year Ended 6/30/04			
<b>Balance Sheet Per Schedule A-1</b>								
Accounts receivable				47,603	47,603		39,717	87,320
Allowance for doubtful accounts				(27,612)	(27,612)			(27,612)
Construction in progress				184,256	184,256	932,439 (1)		1,116,695
Property, plant & equipment					0	4,339,598 (2)		4,339,598
Accumulated depreciation					0	(240,082) (6)		(240,082)
<b>Total assets</b>				<b>204,247</b>		<b>5,031,955</b>	<b>39,717</b>	<b>5,275,919</b>
Advances due to parent company				1,008,181	1,008,181		38,717	1,046,898
Accounts payable				405	405			405
Accrued income taxes payable				56	56	0 (4)		56
Contributions in Aid of Construction						464,000 (7)		464,000
Accum Amortization CIAC						(82,740) (7)		(82,740)
Common stock				1,000	1,000		1,000	2,000
Paid in capital						4,635,782 (8)		4,635,782
Retained earnings				(805,395)	(805,395)	14,913 (8)		(790,482)
<b>Total liabilities &amp; equity</b>				<b>204,247</b>		<b>5,031,955</b>	<b>39,717</b>	<b>5,275,919</b>
<b>Income (expense):</b>								
<b>Per Schedule C-1 (W)</b>								
Water & sewer revenues	37,306	113,194	75,888	36,356	112,244	33,788 (3)	(47,608)	98,424
Water & sewer availability	87,120	86,040	(1,080)	83,215	82,135		(41,067)	41,068
Salary benefit charges		(19,028)	(19,028)	(1,027)	(20,055)			(20,055)
Repairs and supplies	(12,514)	(25,776)	(13,262)	(34,728)	(47,990)			(47,990)
Office supplies			0	(99)	(99)			(99)
Professional fees	(58)	(58)	0	(12,988)	(12,988)			(12,988)
Consulting fees	(4,630)	(12,780)	(8,150)	(1,860)	(10,010)			(10,010)
Telephone	(318)	(655)	(337)	(1,922)	(2,259)			(2,259)
Office equipment rentals			0	(490)	(490)			(490)
Bad debt (income)		(37,781)	(37,781)	10,169	(27,612)		10,738	(16,874)
Heat, light & power	(6,120)	(16,096)	(9,976)	(9,443)	(19,419)			(19,419)
Other operating expense	(75)	(7,660)	(7,585)	(1,624)	(9,209)			(9,209)
Other income	2,239	2,766	527	209	736	(736) (9)		0
Miscellaneous expense	(92)	(1,582)	(1,490)	(1,536)	(3,026)	3,026 (9)		0
Interest expense			0	(4,270)	(4,270)	4,270 (9)		0
State franchise income			0	868	868	(868) (9)		0
Real estate tax	(11)	(11)	0		0			0
Wastewater treatment plant charge	(62,541)	(115,828)	(53,287)	(48,407)	(101,694)	101,694 (5)		0
Depreciation expense				0	0	(12,846) (6)		(12,846)
<b>Pre-tax income</b>	<b>40,306</b>	<b>(35,255)</b>	<b>(75,561)</b>	<b>12,423</b>	<b>(63,138)</b>	<b>128,328</b>		<b>(12,747)</b>
Federal income tax expense		309	309	(162)	147			147
State income tax expense				24	24			24
<b>Net income</b>	<b>40,306</b>	<b>(34,946)</b>	<b>(75,252)</b>	<b>12,285</b>	<b>(62,967)</b>	<b>128,328</b>		<b>(12,576)</b>

(1) Costs for third water well and elevated water storage tank - \$1,116,695 per T&H schedule

(2) To tie to Thomas & Hutton property schedule (\$1,711,549 water and \$2,628,049 sewer)

(3) To adjust for actual water billings for the fiscal year

(4) To record federal and state income tax

(5) Retained earnings adjustment for item prior to 6/30/03

(6) Depreciation calculation on plant and equipment

(7) To record CIAC and amortization of CIAC - See Work Paper 6

(8) To record plant and equipment and other adjustments to paid in capital

(9) To remove non-operating items

Federal income tax at 35% of pretax income, state tax at 4.066% of pretax income

## AUDIT REQUEST # 20

## ORS AUDIT REQUEST FORM

DATE: February 28, 2012

TO: John Guastella

FROM: Christina Stutz

UTILITY: Daufuskie Island Utility Company, Inc. – Docket No. 2011-229-WS

AUDIT PURPOSE: Follow Ups – 1) Land and 2) Regulatory Commission Expense

REQUEST THE FOLLOWING ITEMS BE PROVIDED BY: February 29, 2012

## Item Description:

- A. In regards to AR #9 and the email follow-up sent 2/23/12, please answer the following:
1. Does DIUC have (clear) title or a title to the former Haig Pt/Melrose land and property?
  2. How were the \$159,384 and \$309,117 values for the land determined?
- B. In regards to AR #5 and the email follow-up sent 2/23/12, please provide the following invoice that was not included in the original response:

SCDHEC	667	PJ	2/1/2011	1,623.50
--------	-----	----	----------	----------

- A.
1. Please see PDF file named, "DIUC-ORS Attachment #20.A1."
  2. Please see PDF file named, "DIUC-ORS Attachment #20.A2." Because there was no original cost information with respect to land upon acquisition of Haig Point Utility from International Paper, the original cost of land was estimated in the context of an appraisal of market value as of December 31, 2007 performed by Guastella by trending back to 1986 our estimate of current market value based on \$100,000 per acre at 3% per year. Attached is the appraisal, and refer to pages 3 and 4 for our discussion regarding land.
- B. Please see PDF file named, "DIUC-ORS Attachment #20.B." This is the invoice for the same permit fee for 2011. The \$1,623.50 payment made on 2/1/2011 was payment #3 out of 4 for this same fee for 2010 which totaled \$6,494.00. We have requested a copy of this invoice from SC DHEC.

TO: Christina Stutz

DATE: March 2, 2012

## THE REQUESTED RECORD OR DOCUMENTATION:

- 1) ☒ HAS BEEN PROVIDED TODAY;
- 2) ☐ CANNOT BE PROVIDED BY THE REQUESTED DATE, BUT WILL BE MADE AVAILABLE BY \_\_\_\_\_;
- 3) ☐ ITEM(S) \_\_\_\_\_ IS (ARE) PROPRIETARY AND CONFIDENTIAL BUSINESS INFORMATION;
- 4) ☐ THE ITEM WILL NOT BE PROVIDED. (SEE ATTACHED MEMORANDUM).

*G. Trevor Walker, Attorney 3-2-12*  
 SIGNATURE & TITLE OF RESPONDENT



STATE OF SOUTH CAROLINA }  
COUNTY OF BEAUFORT } GENERAL WARRANTY DEED

KNOW ALL MEN BY THESE PRESENTS, that International Paper Realty Corporation of South Carolina, the "Grantor", in the State aforesaid, for and in consideration of Ten and NO/100 Dollars (\$10.00) and <sup>NO</sup> other good and valuable consideration to them in hand paid at and before the sealing of these presents, by the Grantee hereinbelow in the State aforesaid, (the receipt whereof is hereby acknowledged) has granted, bargained, sold and released, and by these Presents does grant, bargain, sell and release, unto Haig Point Utility Company, Inc., its successors and assigns (the "Grantee") the following described property (the "Premises"):

FILED IN DEED BOOK 449 PAGE 930  
FILED AT 10:39:00 ON 05/27/86

ALL that piece, parcel or lot of land situate, lying and being on Daufuskie Island, Beaufort County, South Carolina containing 5.858 acres, more or less, and more particularly shown on a plat by Gifford, Nielson & Williams entitled "Plat of a 1040.238 Acre Tract Known as Haig Point Plantation and a 5.858 Tract, Owned by Robinson & Craver, P. A., Trustee, Located on Daufuskie Island, South Carolina." Said plat being recorded October 24, 1984 in Plat Book 32 at Page 151 in the RMC Office for Beaufort County, S.C., reference to which is hereby made for a more full and complete description.

Being a portion of the property conveyed to International Paper Realty Corporation of South Carolina by deed of Plantation Land Company, Inc. dated October 23, 1984 and recorded October 24, 1984 in Deed Book 406 at Page 64 in the RMC Office for Beaufort County, S.C.

GRANTEE'S ADDRESS: P. O. BOX 7319,  
Hilton Head, SC 29928

BEAUFORT COUNTY TAX MAP DIVISION				
Dist	Map	Submap	Parcel	Block
570	25		14	

1 A.05

STATE OF SOUTH CAROLINA }  
COUNTY OF BEAUFORT }

PROBATE

PERSONALLY appeared before me Robert H. Hays  
who made oath that (s)he saw the within named International  
Paper Realty Corporation of South Carolina, by R. Michael  
Ross, its President and by Patricia J. Higgins, its  
Secretary, sign, the within written Deed, and the said  
Corporation by said officers, seal said Deed and as its act  
and deed, deliver the same and that (s)he with  
witnessed the execution  
thereof.

WITNESS

SWORN to before me this  
14<sup>th</sup> day of May, 1986

Robert H. Hays (L.S.)  
Notary Public for South Carolina

My Commission Expires: 10/26/88

RECORDED THIS 14th DAY OF MAY 1986  
IN BOOK 449 PAGE 332  
FEE \$ 4.00  
Mary Ann Hays  
REGISTER OF DEEDS, BEAUFORT COUNTY, S.C.

Robinson Crosson, trustee North  
FILED IN DEED BOOK 449 PAGE 332  
FILED AT 10:39:08 ON 05/27/86 168418  
BOOK NUMBER 449 PAGES 330- 332  
FILING FEE 4.00  
STATE STAMPS .00  
COUNTY STAMPS .00  
TOTAL FEES 4.00  
REGISTER OF DEEDS CONVEYANCE  
BEAUFORT COUNTY, SC

STATE OF SOUTH CAROLINA )  
COUNTY OF BEAUFORT )

PROBATE

PERSONALLY appeared before me Robert H. H.  
who made oath that (s)he saw the within named International  
Paper Realty Corporation of South Carolina, by R. Michael  
Ross, its President and by Patricia J. Higgins, its  
Secretary, sign, the within written Deed, and the said  
Corporation by said officers, seal said Deed and as its act  
and deed, deliver the same and that (s)he with  
NAC S. Higgins, Jr. witnessed the execution  
thereof.

WITNESS

SWORN to before me this  
14<sup>th</sup> day of May, 1986

Robert H. H. (L.S.)  
Notary public for South Carolina

My Commission Expires: 10/20/91

RECORDED TIME 4:14  
OF June 1986  
IN BOOK 321  
PAGE 3  
Mary Ann Branch  
BEAUFORT, BEAUFORT COUNTY, S.C.

Robinson, Crowder, Waller & Nash, Inc.  
FILED IN DEED BOOK 449 PAGE 932  
FILED AT 10:39:00 ON 05/27/86 188418  
BOOK NUMBER 449 PAGES 930- 932  
FILING FEE 4.00  
STATE STAMPS .00  
COUNTY STAMPS .00  
TOTAL FEES 4.00  
REGISTER OF MESHE CONVEYANCE  
BEAUFORT COUNTY, SC



1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40 41 42 43 44 45 46 47 48 49 50 51 52 53 54 55 56 57 58 59 60 61 62 63 64 65 66 67 68 69 70 71 72 73 74 75 76 77 78 79 80 81 82 83 84 85 86 87 88 89 90 91 92 93 94 95 96 97 98 99 100

RECORDED

2001 Jun -04 03:24 PM

Shawn G. Davis

BEAUFORT COUNTY AUDITOR

COUNTY Beaufort County  
BK 01402 PG 2190

FILE NUM 2001018868

RECORDING FEES 10.00

RECORDED BY G WILSON

RECORDED 04/05/2001 10:37:40 AM

Prepared by:

BETHBA, JORDAN & GRIFFIN, P.A.  
Shelter Cove Executive Park, Suite 400  
23-B Shelter Cove Lane  
Post Office Drawer 3  
Hilton Head Island, SC 29934  
(843) 785-2171

STATE OF SOUTH CAROLINA )  
COUNTY OF BEAUFORT )  
SPECIAL WARRANTY DEED  
AND  
BILL OF SALE

THIS SPECIAL WARRANTY DEED is made effective this 1st day of April, 2001, by and between HAIG POINT, INC., a Delaware corporation with an address of Post Office Box 7319, Hilton Head Island, South Carolina 29938 ("Grantor") and HAIG POINT UTILITY COMPANY, INC., a South Carolina corporation with an address of P.O. Box 7319, Hilton Head Island, South Carolina 29938 ("Grantee").

WHEREAS, Haig Point, Inc., is the owner and developer of the community known as Haig Point on Daufuskie Island, South Carolina; and

WHEREAS, the Grantee is a corporation organized and existing under the laws of the State of South Carolina as a utility company, for the purpose of constructing and maintaining water and sewer facilities for persons and businesses in Haig Point on Daufuskie Island, South Carolina; and

WHEREAS, Grantor desires to convey to Grantee certain real property which is more particularly described below.

NOW, THEREFORE, KNOW ALL PERSONS BY THESE PRESENTS, that Grantor, for and in consideration of the sum of Ten and No/100 Dollars (\$10.00) and no other valuable consideration to it paid by the Grantee, the receipt and legal sufficiency of which is hereby acknowledged, has granted, bargained, sold and released and by these presents does grant, bargain, sell and release unto the Grantee, its successors and assigns forever, the following real and personal property, subject to, however, the conditions, limitations, and reservations of easements and rights set forth herein:

#### REAL PROPERTY

ALL those certain pieces, parcels or tracts of land situated, lying and being in Haig Point, Daufuskie Island, Beaufort County, South Carolina, shown as "Elevated Tank Site" having and containing 0.337 acres, more or less, as depicted on that certain Plat entitled "9.691 Acre Tract known as Equestrian Center, being a portion of Haig Point, Daufuskie Island, South Carolina,"

(246122.2) 13732-00101

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100mm  
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8450

which plat was prepared by Thomas & Hutton Engineering Co., Boyce L. Young, S.C.P.L.S. #11079, dated May 14, 1999 and recorded in Plat Book 70 at Page 29 in the Office of the Register of Deeds for Beaufort County, South Carolina. For a more accurate description of the distances, courses, metes and bounds of the Property, reference to said plats of record is hereby made.

**SUBJECT TO**, however, the following conditions, limitations, and reservations of easements and rights:

1. Grantor expressly reserves a non-exclusive access, ingress and egress easement to, over, and through the Property along with the right to utilize and grant to others entry to, over, and through the Property for vehicular and pedestrian access to and from any and all of the remainder of Haig Point so long as Grantor, or its successors or assigns, continues to own any real property within the boundaries of the Haig Point planned unit development as defined in the master plan on record with the Beaufort County Zoning and Planning Department.
2. Grantee is restricted from passing any rule or regulation which would diminish the easement rights reserved herein unto Grantor or any previous easement rights vested with Grantor.
3. Grantor makes no warranties to title to that portion of the Property which is deemed marshland or wetlands, as defined by Federal or State law, or which lies below the mean high water mark of Calibogue Sound.
4. Grantor makes no warranties to interests created by or limitations on the Property use imposed by the Federal Coastal Zone Management Act or other Federal law or regulation, or by South Carolina Code Sections 48-39-10 et. seq., as amended, or any regulations promulgated pursuant to said State or Federal laws.
5. Grantor makes no warranties to zoning laws and regulations of Beaufort County, South Carolina and/or any regulatory agency of the State of South Carolina affecting the Property.

**Beaufort County Tax Map Reference: 800-~~25~~ -45**

The Property conveyed herein is a portion of the property conveyed to Grantor herein by deed dated October 23, 1984 and recorded October 24, 1984 in the Office of the Register of Deeds for Beaufort County, South Carolina in Deed Book 406 at Page 64.

#### **BILL OF SALE FOR PERSONAL PROPERTY AND FIXTURES**

This conveyance shall constitute a bill of sale and conveys title to all personal property and improvements located on the Property conveyed herein to the Grantee, including, but not limited to all pipes, valves, fittings and appurtenances to the water supply system and utility infrastructure and other improvements and systems located on the real property conveyed herein (collectively the "Improvements"), if any. The Improvements are conveyed to the Grantee "WHERE IS, AS IS" and without recourse. The Grantor disclaims and makes no representations or warranties, express or implied, in fact or law, with respect to the Improvements including, without limitation, representations or warranties of merchantability, or fitness

for ordinary or any particular purpose.

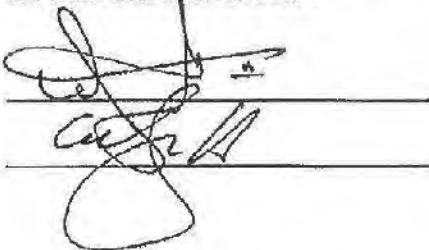
**TOGETHER WITH** all and singular the rights, members hereditaments and appurtenances to the said premises belonging or in anywise incident or appertaining.

**TO HAVE AND TO HOLD**, all and singular the said premises before mentioned unto the said Grantee, its successors and assigns, forever, subject to, however, the conditions, limitations, and reservations of easement and rights set forth above.

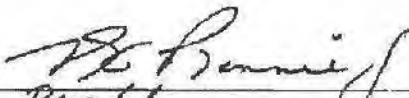
**AND** the Grantor does hereby bind itself and its successors to warrant and forever defend all and singular the said premises unto Grantee, its successors and assigns, against itself and its successors and any person lawfully claiming or to claim the same or any part thereof, by, through or under it, but against none other.

**IN WITNESS WHEREOF**, Haig Point, Inc., a Delaware corporation, has caused these presents to be executed by their duly authorized officers this 1st day of April, 2001.

**SIGNED, SEALED AND DELIVERED  
IN THE PRESENCE OF:**



**GRANTOR:**  
**HAIG POINT, INC.**, a Delaware corporation

By:   
Its: Pres. Lt.

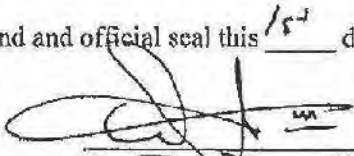
STATE OF SOUTH CAROLINA )

COUNTY OF BEAUFORT )

**ACKNOWLEDGMENT**

I, the undersigned Notary Public, do hereby certify that Haig Point, Inc., by ROBERT H. RENNIE, its Pres. Lt., appeared before me this day and acknowledged the due execution of the foregoing instrument.

Witness my hand and official seal this 1st day of April, 2001.

 (SEAL)  
Notary Public for: SC  
My Commission Expires: 2-25-10



1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40 41 42 43 44 45 46 47 48 49 50 51 52 53 54 55 56 57 58 59 60 61 62 63 64 65 66 67 68 69 70 71 72 73 74 75 76 77 78 79 80 81 82 83 84 85 86 87 88 89 90 91 92 93 94 95 96 97 98 99 100

COUNTY Beaufort County  
BK 01381 PG 1768  
FILE NUM 2001006717  
RECORDING FEES 10.00  
RECORDED BY W BOLLES  
RECORDED 02/06/2001 11:24:02 AM

RECORDED  
2001 Mar -29 04:22 PM  
Shawn O. Bunn  
BEAUFORT COUNTY AUDITOR

Prepared by:

BETHA, JORDAN & GRIFFIN, P.A.  
Shelter Cove Executive Park, Suite 400  
23-B Shelter Cove Lane  
Post Office Drawer 3  
Hilton Head Island, SC 29928  
(843) 785-2171

STATE OF SOUTH CAROLINA ) SPECIAL WARRANTY DEED  
COUNTY OF BEAUFORT ) AND  
BILL OF SALE

THIS SPECIAL WARRANTY DEED is made effective this 15<sup>th</sup> day of February, 2001, by and between HAIG POINT, INC., a Delaware corporation with an address of Post Office Box 7319, Hilton Head Island, South Carolina 29938 ("Grantor") and HAIG POINT UTILITY COMPANY, INC., a South Carolina corporation with an address of P.O. Box 7319, Hilton Head Island, South Carolina 29938 ("Grantee").

WHEREAS, the Grantee is a corporation organized and existing under the laws of the State of South Carolina as a utility company, for the purpose of constructing and maintaining water and sewer facilities for persons and businesses in Haig Point on Daufuskie Island, South Carolina; and

WHEREAS, Haig Point, Inc., is the owner and developer of the community known as Haig Point Plantation on Daufuskie Island, South Carolina; and

WHEREAS, Grantor desires to convey to Grantee certain improved real property which is more particularly described below.

NOW, THEREFORE, KNOW ALL PERSONS BY THESE PRESENTS, that Grantor, for and in consideration of the sum of Ten and No/100 Dollars (\$10.00) and no other valuable consideration to it paid by the Grantee, the receipt and legal sufficiency of which is hereby acknowledged, has granted, bargained, sold and released and by these presents does grant, bargain, sell and release unto the Grantee, its successors and assigns forever, the following real and personal property, subject to, however, the conditions, limitations, and reservations of easements and rights set forth herein:

REAL PROPERTY

ALL those certain pieces, parcels or tracts of land situated, lying and being in Haig Point, Daufuskie Island, Beaufort County, South Carolina, shown as "Well Site #1" having and containing 1.588 acres, more or less, as depicted on that certain Plat entitled "A Boundary Plat of Well Site #1 & Open Space 3.734 Acres, Daufuskie Island, South Carolina", which plat was prepared by Thomas & Hutton Engineering Co., Boyce L. Young, S.C.P.L.S. #11079, said plat being dated July 28, 1999

CHANGE DATA  
BEAUFORT COUNTY TAX MAP REFERENCE

Dist	Map	SubMap	Parcel	Excerpt	Width
R010	E22	E00	0020	0000	00

CHANGE DATA  
BEAUFORT COUNTY TAX MAP REFERENCE

Dist	Map	SubMap	Parcel	Excerpt	Width
R010	E22	E00	0020	0000	00

and recorded in Plat Book 74 at Page 30 in the Office of the Register of Deeds for Beaufort County, South Carolina and "Well Site #2" having and containing 1.040 acres, more or less, as depicted on that certain Plat entitled "A Boundary Plat of Well Site #2 1.040 Acres, Daufuskie Island, South Carolina," which plat was prepared by Thomas & Hutton Engineering Co., Inc. S.C.P.L.S. #11079, said plat being dated July 28, 1999 and recorded in Plat Book 74 at Page 25 in the Office of the Register of Deeds for Beaufort County, South Carolina (Well Site #1 and Well Site #2 collectively hereinafter referred to as the "Property"). For a more accurate description of the distances, courses, metes and bounds of the Property, reference to said plats of record is hereby made.

**SUBJECT TO**, however, the following conditions, limitations, and reservations of easements and rights:

1. Grantor expressly reserves a non-exclusive access, ingress and egress easement to, over, and through the Property along with the right to utilize and grant to others entry to, over, and through the Property for vehicular and pedestrian access to and from any and all of the remainder of Haig Point so long as Grantor, or its successors or assigns, continues to own any real property within the boundaries of the Haig Point planned unit development as defined in the master plan on record with the Beaufort County Zoning and Planning Department.
2. Grantor expressly reserves a perpetual, alienable, appurtenant easement to, over and through the Property for the construction, relocation and maintenance of potable water and sanitary sewer infrastructure, such easement rights to include the right to temporarily remove landscaping and improvements on the Property to provide reasonable access to potable water and sanitary sewer infrastructure. Following the exercise of its easement rights hereunder, Grantor shall reasonably restore the Property to its previous condition at Grantor's expense. This reservation of easement is freely alienable and may be conveyed without recourse to a private or public utility company by Grantor.
3. Grantor expressly reserves a perpetual, alienable, appurtenant easement to, over and through the Property for the construction, relocation and maintenance of deep water wells together with all structures, appliances and appendages necessary or convenient in connection therewith, together with all rights and privileges incident to the use and enjoyment thereof, including the right to withdraw water therefrom for use in the sole discretion of the Grantor, its successors and assigns, such easement rights to include the right to temporarily remove landscaping and improvements on the Property to provide reasonable access to the deep well infrastructure. Following the exercise of its easement rights hereunder, Grantor shall reasonably restore the Property to its previous condition at Grantor's expense. This reservation of easement is freely alienable and may be conveyed without recourse to a private or public utility company by Grantor.
4. Grantee is restricted from passing any rule or regulation which would diminish the easement rights reserved herein unto Grantor or any previous easement rights vested with Grantor.
5. Grantor makes no warranties to title to that portion of the Property which is deemed marshland or wetlands, as defined by Federal or State law, or which lies below the mean high water mark of Calibogue Sound.



6. Grantor makes no warranties to interests created by or limitations on the Property use imposed by the Federal Coastal Zone Management Act or other Federal law or regulation, or by South Carolina Code Sections 48-39-10 et. seq., as amended, or any regulations promulgated pursuant to said State or Federal laws.
7. Grantor makes no warranties to zoning laws and regulations of Beaufort County, South Carolina and/or any regulatory agency of the State of South Carolina affecting the Property.

Beaufort County Tax Map Reference: 800-~~22~~ - 1

The Property conveyed herein is a portion of the property conveyed to Grantor herein by deed dated October 23, 1984 and recorded October 24, 1984 in the Office of the Register of Deeds for Beaufort County, South Carolina in Deed Book 406 at Page 64.

The within deed was prepared by the law firm of Bethea, Jordan & Griffin, P.A., Post Office Drawer 3, Hilton Head Island, SC 29938.

**BILL OF SALE FOR PERSONAL PROPERTY AND FIXTURES**

This conveyance shall constitute a bill of sale and conveys title to all personal property and improvements located on the Property conveyed herein to the Grantee, including, but not limited to all pipes, valves, fittings and appurtenances to the water supply system and utility infrastructure and other improvements and systems located on the real property conveyed herein (collectively the "Improvements"). The Improvements are conveyed to the Grantee "WHERE IS, AS IS" and without recourse. The Grantor disclaims and makes no representations or warranties, express or implied, in fact or law, with respect to the Improvements including, without limitation, representations or warranties of merchantability, or fitness for ordinary or any particular purpose. The Grantor disclaims any warranties regarding the condition, design, date of completion, construction, accuracy or completeness of the Improvements conveyed herein.

**TOGETHER WITH** all and singular the rights, members hereditaments and appurtenances to the said premises belonging or in anywise incident or appertaining.

**TO HAVE AND TO HOLD**, all and singular the said premises before mentioned unto the said Grantee, its successors and assigns, forever, subject to, however, the conditions, limitations, and reservations of easement and rights set forth above.

**AND** the Grantor does hereby bind itself and its successors to warrant and forever defend all and singular the said premises unto Grantee, its successors and assigns, against itself and its successors and any person lawfully claiming or to claim the same or any part thereof, by, through or under it, but against none other.

IN WITNESS WHEREOF, Haig Point, Inc., a Delaware corporation, has caused these presents to be executed by their duly authorized officers this 1<sup>ST</sup> day of FEBRUARY, 2001. **FILED BY 013881 PAGE 1771**

SIGNED, SEALED AND DELIVERED  
IN THE PRESENCE OF:

*Shelly L. Smith*  
*Rhinnel Green*

GRANTOR:

HAIG POINT, INC., a Delaware corporation

By: *J.R. Ronnie Jr.*  
Its: *President* *am*

STATE OF NEW JERSEY  
COUNTY OF BERGEN

ACKNOWLEDGMENT

I, the undersigned Notary Public, do hereby certify that Haig Point, Inc., by L.H. RONNIE JR. its PRESIDENT, appeared before me this day and acknowledged the due execution of the foregoing instrument.

Witness my hand and official seal this 1<sup>ST</sup> day of FEBRUARY, 2001.

*Johanna Curry* (SEAL)  
Notary Public for:  
My Commission Expires: October 5, 2005

JOHANNA CURRY  
Notary Public, State of New Jersey  
My Commission Expires October 5, 2005

STATE OF SOUTH CAROLINA )  
COUNTY OF BEAUFORT ) LIMITED WARRANTY DEED

KNOW ALL MEN BY THESE PRESENTS, THAT

SOUTHEAST HOLDING COMPANY, LTD. and HILTON HEAD PLANTATION UTILITIES, INC.

in the State aforesaid, for and in consideration of the sum of Ten and No/100 Dollars (\$10.00) and other valuable consideration to them in hand paid at and before the sealing of these presents, by THE MELROSE UTILITY COMPANY, INC., a South Carolina corporation, whose address is Post Office Box 6779, Hilton Head Island, South Carolina 29938, the receipt whereof is hereby acknowledged, have granted, bargained, sold and released, and by these Presents do grant, bargain, sell and release, unto the said THE MELROSE UTILITY COMPANY, INC., its successors and assigns, that property more fully described in EXHIBIT "A" attached hereto and made a part of this Deed of Conveyance.

This conveyance is made by the Grantor and accepted by the Grantee subject to the Permitted Title Exceptions set forth in Exhibit "B" attached hereto and made a part hereof.

This being a portion of the same property conveyed by Deed dated December 9, 1971, recorded in the records of the Office of the Clerk of Court for Beaufort County, South Carolina in Deed Book 193 at Page 1626, by Fred C. Hack and Frederick C. Hack, Jr., as Trustees to Hilton Head Development Corp., which thereafter became Hilton Head Plantation Company, Inc., and has now become Southeast Holding Company, Ltd. doing business as Hilton Head Plantation Company.

TOGETHER with all and singular the Rights, Members, Hereditaments and Appurtenances to the said Premises belonging, or in anywise incident or appertaining.

TO HAVE AND TO HOLD, all and singular the said premises before mentioned unto the said THE MELROSE UTILITY COMPANY, INC., its successors and assigns forever.

And the said SOUTHEAST HOLDING COMPANY, LTD. and HILTON HEAD PLANTATION UTILITIES, INC. do hereby bind themselves and their successors and assigns, to warrant and forever defend all and singular the said premises unto the said THE MELROSE UTILITY COMPANY, INC., its successors and assigns, against themselves and their successors and any persons claiming under or through them, subject, however, to the Permitted Title Exceptions set forth in Exhibit "B" attached hereto and made a part hereof.

IN WITNESS WHEREOF, SOUTHEAST HOLDING COMPANY, LTD. and HILTON HEAD PLANTATION UTILITIES, INC. have caused these presents to be executed in their names by their appropriate officers and their corporate seals to be hereto affixed this 25th day of November in the year of our Lord one thousand nine hundred and eight-five, and in the two hundred and tenth year of the Sovereignty and Independence of the United States of America.

BEAUFORT COUNTY TAX MAP REFERENCE

Dist	Map	Submap	Parcel	Block

FILED IN DEED BOOK 405 PAGE 2498  
FILED AT 11:26:00 PM 11 26 85



WITNESSES:

SOUTHEAST HOLDING COMPANY,  
LTD.Gordon S. ColmanBy: Howard A. Davis  
Howard A. Davis  
Vice PresidentBalanced AndersonAttest: Paul A. Graf  
Paul A. Graf  
Assistant SecretaryHILTON HEAD PLANTATION  
UTILITIES, INC.Gordon S. ColmanBy: Howard A. Davis  
Howard A. Davis  
PresidentBalanced AndersonAttest: Paul A. Graf  
Paul A. Graf  
Assistant SecretarySTATE OF SOUTH CAROLINA )  
COUNTY OF BEAUFORT )

PERSONALLY appeared before me Gordon S. Colman  
who, on oath, says that s/he saw the within-named SOUTHEAST  
HOLDING COMPANY, LTD., by its appropriate officers, sign, seal,  
attest and, as its act and deed, deliver the within-written  
Limited Warranty Deed, and that s/he with Breanna Anderson  
witnessed the execution thereof.

Gordon S. ColmanSWORN to before me this  
25th day of November, 1985.

Balanced Anderson  
Notary Public for South Carolina  
My Commission Expires: 1-5-1991

FILED IN DEED BOOK 47 PAGE 1523  
FILED AT 110600 ON 11 28 85

STATE OF SOUTH CAROLINA )  
 )  
COUNTY OF BEAUFORT )

PERSONALLY appeared before me Gordon S. Colman  
who, on oath, says that s/he saw the within-named HILTON HEAD  
PLANTATION UTILITIES, INC., by its appropriate officers, sign,  
seal, attest and, as its act and deed, deliver the within-  
written Limited Warranty Deed, and that s/he with BARBARA  
ANDERSON witnessed the execution thereof.

Gordon S. Colman

SWORN to before me this  
25th day of November, 1985.

Barbara Anderson  
Notary Public for South Carolina  
My Commission Expires: 1-5-1991

FILED IN DEED BOOK 435 PAGE 1531  
FILED AT 110600 PM 11-25-85

## EXHIBIT "A"

## TO LIMITED WARRANTY DEED

DESCRIPTIONS OF LAND  
AND  
VARIOUS PROPERTY RIGHTS

ALL those parcels of land in Hilton Head Plantation, on Hilton Head Island, Beaufort County, South Carolina, having and containing .566 acre, more or less, as shown on a plat entitled "A Plat Showing Lands of Southeast Holding Company, Ltd. and Skull Creek Holding Corp." dated August 26, 1985 and prepared by Thomas & Hutton Engineering Company, certified to by William G. Foster, R.L.S.(S.C.) No. 2753, which plat is recorded in the Office of the Clerk of Court for Beaufort County, South Carolina in Plat Book 33 at Page 119. Said parcels of land consist of those areas identified as follows:

PUMP STATION SITES	.209 ac.
COMM. SERVICE AREA	.357 ac.

For a more detailed description as to courses and distances, metes and bounds of the above-described parcels of land, reference is had to the above-mentioned plat.

## ALSO

## PARCEL 1 (Water Tower Site)

ALL that certain piece, parcel or tract of land located in Hilton Head Plantation being a part of AREA N-P, R-U and containing 2.943 acres, more or less, and being more particularly described as follows: The Point of Beginning is a concrete monument located at South Carolina State Plain Coordinates N 147,345.988, E 2,079,894.368. Proceeding from said Point of Beginning S30°31'09"E for 316.962 feet to a point; thence S60°22'46"E for 187.749 feet to a point; thence S74°46'51"E for 357.606 feet to a point; thence N36°08'16"E for 360.457 feet to a point; thence N36°08'16"E for 461.239 feet to a point; thence S77°02'39"E 53.018 feet to a point; thence S53°35'58"E for 234.846 feet to a point; thence S36°24'01"W for 160 feet to a point; thence N53°35'58"W for 40 feet to a point; thence S36°24'01"W for 90 feet to a point; thence N53°35'59"W for 199.82 feet to a point; thence S36°08'16"W for 619.12 feet to a point; thence N74°46'51"W for 393 feet to a point; thence N60°22'46"W for 203.459 feet to a point; thence N30°31'09"W for 327.051 feet to a point; thence N58°38'40"E for 40 feet to a point which marks the Point of Beginning.

The above-described property consists of a 40' access road to and the site of the existing elevated water storage tower and well site in Hilton Head Plantation.

## ALSO

## PARCEL 2 (Access Road to Sewage Treatment Plant)

ALL that certain piece, parcel or tract of land located in Hilton Head Plantation being a part of AREA N-P, R-U and containing 0.356 acres, more or less, and being more particularly described as follows: The Point of Commencement is located at South Carolina State Plain Coordinates N 149,804.487, E 2,082,827.601 and proceeding from said Point of Commencement S09°06'39"W for 90.79 feet to a concrete monument which marks the Point of Beginning; thence S67°43'54"W for 141.52 feet to a point; thence S30°13'54"W for 46.65 feet to a point; thence S11°46'06"E for 85.95 feet to a point; thence S01°13'54"W for 161.43 feet to a

FILED IN DEED BOOK 400 PAGE 1501  
 FILED AT 11:06:00 PM 11/26/85



point; thence S06°43'54"W for 60.31 feet to a point; thence N66°16'06"W for 31.37 feet to a point; thence N06°43'54"W for 49.69 feet to a point; thence N01°13'54"E for 156.57 feet to a point; thence N11°46'06"W for 94.05 feet to a point; thence N30°13'54"E for 68.35 feet to a point; thence N67°43'54"E for 170.01 feet to a point; thence S09°06'39"W for 35.41 feet to a point which marks the Point of Beginning.

The above-described parcel consists of 0.356 acres of roadway leading from Royal James Drive into the existing sewage treatment plant in Hilton Head Plantation.

ALSO

PARCEL 3 (Sewage Treatment Plant)

ALL that certain piece, parcel or tract of land located in Hilton Head Plantation being a part of AREA N-P, R-U and containing 11.316 acres, more or less, and being more particularly described as follows: The Point of Commencement is located at State Plain Coordinates N 149,804.487, E 2,082,827.601 and proceeding from said Point of Commencement S09°06'39"W for 163.26 feet to a concrete monument; thence proceeding in a southerly direction along a curve having a radius of 976.20 feet, a central angle of 12°03'57", a chord bearing S03°04'40"W and a chord distance of 205.20 feet to a concrete monument; thence S02°57'18"E for 112.61 feet to a concrete monument; thence proceeding in a southerly direction along a curve having a radius of 592.69 feet, a central angle of 06°25'37", a chord bearing of S00°15'30"W and a chord distance of 66.45 feet to a concrete monument which marks the Point of Beginning; thence S15°25'24"W for 501.115 feet to a point; thence S48°29'33"W for 172.540 feet to a point; thence S46°59'16"W for 330.442 feet to a point; thence N73°21'53"W for 108.890 feet to a point; thence N43°26'42"W for 519.940 feet to a point; thence N61°14'25"E for 243.640 feet to a point; thence N45°52'23"E for 502.053 feet to a point; thence S76°15'00"E for 111 feet to a point; thence N50°25'38"E for 54.41 feet to a point; thence N78°54'42"E for 39 feet to a point; thence S43°02'45"E for 129.63 feet to a point; thence N43°30'56"E for 28.65 feet to a point; thence S66°16'06"E for 178.20 feet to a concrete monument which marks the Point of Beginning.

The above-described parcel consists of 11.316 acres comprising the Hilton Head Plantation waste water treatment plant.

FILED IN DEED BOOK 435 PAGE 1503  
FILED AT 110600 ON 11/16/17

EXHIBIT BPERMITTED TITLE EXCEPTIONS

1. AMENDED AND RESTATED DECLARATION OF COVENANTS AND RESTRICTIONS OF THE HILTON HEAD PLANTATION PROPERTY OWNERS' ASSOCIATION AND HILTON HEAD PLANTATION COMPANY, INC. dated March 28, 1983, recorded in the Office of the Clerk of Court for Beaufort County, South Carolina in Deed Book 367 at Page 656 on April 19, 1983, as amended in Deed Book 388 at Page 26 and Deed Book 393 at Page 1421, and as may be further amended from time to time.
2. That certain NON-EXCLUSIVE EASEMENT AND CONVEYANCE OF RIGHTS from Hilton Head Plantation Company, Inc. to Skull Creek Center and The Citizens and Southern National Bank, Savannah, Georgia, granting certain easement rights for ingress and egress to the OLD FORT PUB SITE which Easement was executed February 6, 1976, and recorded February 10, 1976, in the Office of the Clerk of Court, South Carolina in Deed Book 234 at Page 996.
3. NON-EXCLUSIVE PARKING EASEMENT AND PURCHASE OPTION between Hilton Head Plantation Company, Inc. and The Skull Creek Center dated May 6, 1974, together with that certain Modification of Parking Easement and Purchase Option dated January 9, 1976, together with that certain Assignment of Non-Exclusive Parking Easement and Purchase Option dated January 9, 1976, all of which are recorded in the Office of the Clerk of Court for Beaufort County, South Carolina in Deed Book 234 beginning at Page 999.
4. That certain GRANT OF NON-EXCLUSIVE EASEMENT from Southeast Holding Company, Ltd. to The Hilton Head Historical Society recorded in the Office of the Clerk of Court for Beaufort County, South Carolina in Deed Book 397 at Page 1695.
5. That certain GRANT OF NON-EXCLUSIVE EASEMENT from Skull Creek Holding Corp. to Southeast Holding Company, Ltd. recorded in the Office of the Clerk of Court for Beaufort County, South Carolina in Deed Book 397 at Page 1690.
6. That certain NON-EXCLUSIVE EASEMENT AGREEMENT from Southeast Holding Company, Ltd. to Elmer A. Zarney and Betty H. Zarney recorded in the Office of the Clerk of Court for Beaufort County, South Carolina in Deed Book 397 at Page 1702.
7. That certain GRANT OF NON-EXCLUSIVE EASEMENT from Southeast Holding Company, Ltd. to Skull Creek Holding Corp. which is recorded in the Office of the Clerk of Court for Beaufort County, South Carolina in Deed Book 430 at Page 1779.
8. That certain EASEMENT from Hilton Head Plantation Company, Inc. to Central Electric Power Co-Operative, Inc. consisting of certain right-of-way containing 1.34 acres as shown in Plat Book 26 at Page 29, which said Easement was executed May 6, 1977 and recorded in the Office of the Clerk of Court for Beaufort County, South Carolina on June 15, 1977, in Deed Book 249 at Page 721.
9. That certain EASEMENT from Hilton Head Plantation Company, Inc. to Central Electric Power Co-Operative, Inc. conveying certain rights-of-way as shown in Plat Page 23 at Page 183 which said Easement was executed November 3, 1975, and recorded on November 13, 1975, in the Office of the Clerk of Court for Beaufort County, South Carolina in Deed Book 232 at Page 1353.

FILED IN DEED BOOK 477 PAGE 1834  
 FILED AT 113600 ON 11-25-85



10. That certain RECIPROCAL USE AGREEMENT between Hilton Head Plantation Company, Inc. and Sea Pines Plantation Company executed October 29, 1975, and recorded December 1, 1975, at 2:30 p.m. in the Office of the Clerk of Court for Beaufort County, South Carolina in Deed Book 232 at Page 2013.
11. That certain EASEMENT from Hilton Head Plantation Company, Inc. to Plantation Cablevision, Inc. conveying a non-exclusive easement along all roadways, utility easements and rights-of-way, which Easement was executed November 28, 1978 and recorded December 4, 1978 at 2:30 p.m., in the Office of the Clerk of Court for Beaufort County, South Carolina in Deed Book 273 at Page 1891.
12. That certain DECLARATION, RIGHTS, RESTRICTIONS, AFFIRMATIVE OBLIGATIONS, CONDITIONS, ETC. WHICH CONSTITUTE COVENANTS RUNNING WITH THE LAND OF HILTON HEAD PLANTATION COMPANY, INC. known as Class "A" Covenants dated February 15, 1973, and recorded July 11, 1973, in the Office of the Clerk of Court for Beaufort County, South Carolina in Deed Book 211 at Page 1470, as amended in Deed Book 223 at Page 2054, Deed Book 224 at Page 1012, and Deed Book 376 at Page 1437.
13. That certain DECLARATION OF RIGHTS, RESTRICTIONS, AFFIRMATIVE OBLIGATIONS, CONDITIONS, ETC. WHICH CONSTITUTE COVENANTS RUNNING WITH THE LAND OF HILTON HEAD PLANTATION COMPANY, INC. known as Class "B" Covenants dated December 6, 1974, and recorded in the Office of the Clerk of Court for Beaufort County, South Carolina on January 6, 1975, in Deed Book 225 at Page 2003.
14. That certain PERPETUAL EASEMENT from Olin T. MacIntosh, Jr. and Fred C. Hack, as Trustees, to the Central Electric Power Co-Operative, Inc. and the Palmetto Electric Co-Operative, Inc., over and to certain portions of a 7,297.04 acre tract, said Easement being recorded in the Office of the Clerk of Court for Beaufort County, and Town of Hilton Head Island, South Carolina, in Deed Book 179 at Page 63.
15. That certain EASEMENT APPURTENANT from Skull Creek Holding Corp. in favor of Skull Creek Village-West, a South Carolina Limited Partnership, dated September 15, 1983 and recorded on January 20, 1984 in the Office of the Clerk of Court for Beaufort County, South Carolina, in Deed Book 386 at Page 1279.
16. That certain EASEMENT APPURTENANT from Hilton Head Plantation Company, Inc. in favor of Skull Creek Village-West, a South Carolina Limited Partnership, dated September 15, 1983, recorded on January 20, 1984 in the Office of the Clerk of Court for Beaufort County, South Carolina in Deed Book 386 at Page 1283.
17. That certain GRANT OF EASEMENT from The Delta Group, a South Carolina General Partnership, in favor of Village North Horizontal Property Regime, recorded on June 24, 1983 in the Office of the Clerk of Court for Beaufort County, South Carolina in Deed Book 372 at Page 36.
18. That certain TEMPORARY GRANT OF EASEMENT from Skull Creek Holding Corp. in favor of Skull Creek Village-West, a South Carolina Limited Partnership, dated September 15, 1983 recorded in the Office of the Clerk of Court for Beaufort County, South Carolina in Deed Book 386 at Page 1274 on January 20, 1984, re-recorded on February 6, 1984 in said Clerk's Office in Deed Book 387 at Page 1371.
19. That certain EASEMENT thirty feet (30') in width from U.S. Highway 278 to the property of Central Electric Co-Operative

containing 2.878 acres, which Easement is recorded in the Office of the Clerk of Court for Beaufort County, South Carolina in Deed Book 170 at Page 20.

20. That certain DECLARATION AND RESTRICTIONS for The Rookery recorded in the Office of the Clerk of Court for Beaufort County, South Carolina in Deed Book 267 at Page 370, and that Covenant, Declaration and Restrictions for The Rookery Owners' Association recorded in said Office in Deed Book 267 at Page 357.
21. That certain unrecorded EASEMENT from Hilton Head Plantation Company, Inc. to the Beaufort County School District which is dated October 25, 1982.
22. That certain unrecorded LEASE AGREEMENT between Seabrook Stables, Inc., as lessee, and Hilton Head Plantation Company, Inc., as lessor, dated May 17, 1978, pertaining to that area commonly known as Seabrook Stables including the barn and associated pasture and paddock area, together with the amendment thereto and the renewal thereof for a renewal term ending May 14, 1988.
23. Those certain COVENANTS, DECLARATIONS AND RESTRICTIONS FOR THE OYSTER REEF COVE ASSOCIATION dated August 8, 1985 and recorded August 20, 1985 in the Office of the Clerk of Court for Beaufort County, South Carolina in Deed Book 427 at Page 1650.
24. The claims of third parties relating to those areas known as Elliot and Talbot Cemeteries and Fort Mitchell (sometimes referred to as Fort Gilmore) including right of access for ingress and egress thereto.
25. That certain Quiet Title action entitled "Southeast Holding Company, Ltd. and Carolina Summit Properties, Inc. vs. Mary M. Woodward, et al." identified as Case Number 84-CP-07-1483 in the Court of Common Pleas for Beaufort County, South Carolina, subject to the provisions of Section 408 of the Agreement for Purchase and Sale.
26. That certain unrecorded GROUND LEASE AGREEMENT between Hilton Head Plantation Company, Inc., as Landlord, and Hilton Head Plantation Utilities, Inc. as Tenant, dated January 1, 1983 (relating to approximately 43 acres of effluent spray area) which has a term extending to December 31, 1986.
27. Beaufort County real property taxes for the year 1985 (a lien but not yet due and payable) and taxes for subsequent years and any other taxes or special assessments which are not shown as an existing lien by the public records.
28. Rights and claims of tenants in possession.
29. Encroachments, overlaps, boundary line disputes and any other matters which would be disclosed by an accurate survey and inspection of the premises.
30. Easements or claims of easements not shown by the public records.

RECORDED THIS 4th DAY  
OF December 1985  
PAGE 194  
FILED BY Mary Ann Gray 50  
CLERK, BEAUFORT COUNTY, S. C.

-3-

*Hughes & Winters*  
FILED IN DEED BOOK 435 PAGE 1501  
FILED AT 11:00 AM ON 11-26-85 90826  
BOOK NUMBER 435 PAGES 1499-1501  
FILING FEE 3.00  
STATE STAMPS .00  
COUNTY STAMPS .00  
TOTAL FEES 3.00



STATE OF SOUTH CAROLINA )  
 ) Quit-Claim Deed  
 COUNTY OF BEAUFORT )

TO ALL WHOM THESE PRESENTS MAY COME:

SOUTHEAST HOLDING COMPANY, LTD. and HILTON HEAD PLANTATION  
 UTILITIES, INC. SEND GREETING:

NOW, KNOW ALL MEN BY THESE PRESENTS, That the said SOUTHEAST HOLDING COMPANY, LTD. and HILTON HEAD PLANTATION UTILITIES, INC., in consideration of the premises and also in consideration of the sum of ONE and No/100 DOLLAR (\$1.00) and the consideration associated with a companion deed from the within Grantors to the within Grantee to it in hand paid at and before the sealing and delivery of these presents by THE MELROSE UTILITY COMPANY, INC., a South Carolina corporation, whose address is c/o Post Office Box 6779, Hilton Head Island, South Carolina 29938, the receipt whereof is hereby acknowledged, have remised, released and forever quit-claimed, and by these presents do remise, release and forever quit-claim unto the said THE MELROSE UTILITY COMPANY, INC., its successors and assigns forever, all of its right, title and interest, whatever the same may be, in and to all the real property described on EXHIBIT "A" and those certain Intangibles described on EXHIBIT "B" which are attached hereto and made a part hereof.

The property or property rights described herein, if any, are a portion of the same property conveyed by Deed dated December 9, 1971, recorded in the records of the Office of the Clerk of Court for Beaufort County, South Carolina in Deed Book 193 at Page 1626, by Fred C. Hack and Frederick C. Hack, Jr., as Trustees to Hilton Head Development Corp., which thereafter became Hilton Head Plantation Company, Inc., and has now become Southeast Holding Company, Ltd. doing business as Hilton Head Plantation Company.

TOGETHER with all and singular the rights, members, hereditaments and appurtenance to the said premises belonging or in anywise incident or appertaining:

TO HAVE AND TO HOLD all and singular the said premises before mentioned unto the said THE MELROSE UTILITY COMPANY, INC., its successors and assigns forever, so that neither the said SOUTHEAST HOLDING COMPANY, LTD. nor HILTON HEAD PLANTATION UTILITIES, INC. nor their successors or any other person or persons claiming under them, shall at any time hereafter, by any way or means, have, claim or demand any right or title to the aforesaid premises or appurtenances, or any part of parcel thereof, forever.

Witness hand and seal of the appropriate officers of the Grantors herein this 25th day of November in the year of our Lord one thousand nine hundred eight-five and in the two hundred and tenth year of the Sovereignty and Independence of the United States of America.

WITNESSES:

SOUTHEAST HOLDING COMPANY,  
 LTD.

*Jordan S. Colman*

By: *Howard A. Davis*  
 Howard A. Davis  
 Vice President

*Edmond M. Hahn*

Attest:

*Paul A. Graf*  
 Paul A. Graf  
 Assistant Secretary

Map	Submap	Parcel	Block

FILED IN DEED BOOK 455 PAGE 150-  
 FILED AT 110300 04 11 20 98

WITNESSES:

HILTON HEAD PLANTATION  
UTILITIES, INC.Gordon S. ColmanBy: Howard A. Davis  
Howard A. Davis  
PresidentEdward M. HughesAttest: Paul A. Graf  
Paul A. Graf  
Assistant SecretarySTATE OF SOUTH CAROLINA )  
COUNTY OF BEAUFORT )

PERSONALLY appeared before me Gordon S. Colman  
who, on oath, says that s/he saw the within-named SOUTHEAST  
HOLDING COMPANY, LTD., by its appropriate officers, sign, seal,  
attest and, as its act and deed, deliver the within-written  
Quit-Claim Deed, and that s/he with EDWARD M. HUGHES  
witnessed the execution thereof.

Gordon S. ColmanSWORN to before me this  
25th day of November, 1985Edward M. Hughes  
Notary Public for South Carolina  
My Commission Expires: 1/7/95STATE OF SOUTH CAROLINA )  
COUNTY OF BEAUFORT )

PERSONALLY appeared before me Gordon S. Colman  
who, on oath, says that s/he saw the within-named HILTON HEAD  
PLANTATION UTILITIES, INC., by its appropriate officers, sign,  
seal, attest and, as its act and deed, deliver the within-  
written Quit-Claim Deed, and that s/he with EDWARD M. HUGHES  
witnessed the execution thereof.

Gordon S. ColmanSWORN to before me this  
25th day of November, 1985.Edward M. Hughes  
Notary Public for South Carolina  
My Commission Expires: 1/7/95



## EXHIBIT "A"

## TO QUIT CLAIM DEED

DESCRIPTIONS OF LAND  
AND  
VARIOUS PROPERTY RIGHTS

That certain GRANT OF EASEMENT from Hilton Head Plantation Company, Inc. to Hilton Head Plantation Utilities, Inc. granting a non-exclusive easement for water and sewer lines over certain roadways within Hilton Head Plantation which easement was recorded on December 24, 1982 in the Office of the Clerk of Court for Beaufort County, South Carolina in Deed Book 360 at Page 374.

## ALSO

That certain GRANT OF EASEMENT from Hilton Head Center of S.C., Inc. to Hilton Head Plantation Utilities, Inc. granting a non-exclusive easement for installation and maintenance of water lines in the vicinity of Pine Court Apartments which deed was recorded on March 25, 1982 in the Office of the Clerk of Court for Beaufort County, South Carolina in Deed Book 344 at Page 180.

## ALSO

ALL that certain piece, parcel or tract of land consisting of 0.15 acres on which is located a pump station as more particularly shown on the plat recorded in the Office of the Clerk of Court for Beaufort County, South Carolina in Plat Book 28 at Page 44. Said 0.15 acre parcel is a portion of the property conveyed from Palmetto Dunes Resort, Inc. to Hilton Head Plantation Utilities, Inc. by deed recorded in the Office of the Clerk of Court for Beaufort County, South Carolina on October 9, 1979 in Deed Book 289 at Page 2050.

## ALSO

That certain GRANT OF EASEMENTS from Palmetto Dunes Resort, Inc. to Hilton Head Plantation Utilities, Inc. for water and sewer lines in the vicinity of the Hilton Head Hospital which Grant of Easements was recorded on October 9, 1979 in the Office of the Clerk of Court for Beaufort County, South Carolina in Deed Book 289 at Page 2055.

## ALSO

That certain GRANT OF EASEMENT from Island Investment Corporation to Hilton Head Plantation Utilities, Inc. conveying certain water and sewer line easements in the vicinity of Hilton Head Hospital which Grant of Easement was recorded on October 9, 1979 in the Office of the Clerk of Court for Beaufort County, South Carolina in Deed Book 289 at Page 2059.

FILED IN DEED BOOK 405 PAGE 1500  
 FILED AT 112608 ON 11-23-85

## ALSO

That certain GRANT OF EASEMENT from the Hilton Head Hospital and Island Investment Corporation to Hilton Head Plantation Utilities, Inc. conveying certain water and sewer easements in the vicinity of Hilton Head Hospital which Grant of Easement was recorded on October 9, 1979 in the Office of the Clerk of Court for Beaufort County, South Carolina in Deed Book 289 at Page 2062.

## ALSO

That certain GRANT OF EASEMENT from Little Bear Island, Inc. to Hilton Head Plantation Utilities, Inc. conveying certain water and sewer easements on Little Bear Island Subdivision which Grant of Easement was recorded on March 30, 1981 in the Office of the Clerk of Court for Beaufort County, South Carolina in Deed Book 319 at Page 81.

## ALSO

That certain GRANT OF EASEMENT from Plantation Villa Company, Inc., Dolphin Head Company, Inc. and Dolphin Point Club Homeowners' Association to Hilton Head Plantation Utilities, Inc. conveying certain water and sewer easements in the vicinity of Dolphin Point Club which Grant of Easement was recorded on January 11, 1983 in the Office of the Clerk of Court for Beaufort County, South Carolina in Deed Book 361 at Page 733.

## ALSO

That certain unrecorded GROUND LEASE AGREEMENT between Hilton Head Plantation Company, Inc., as Landlord, and Hilton Head Plantation Utilities, Inc., as Tenant, dated January 1, 1983 (relating to approximately 43 acres of effluent spray area) which has a term extending to December 31, 1986.

## ALSO

The following easements and other property rights:

1. The reservation of rights to easements for the installation of utilities, etc. over, along and under for those right-of-ways, together with such rights of others as set forth in that certain deed from Hilton Head Plantation Company, Inc. to the Property Owners' Association as recorded in the Office of the Clerk of Court for Beaufort County, South Carolina in Deed Book 297 at Page 1134.
2. The reservation of rights to easements for the installation of utilities, etc. over, along and under for those right-of-ways, together with such rights of others as set forth in that certain deed from Hilton Head Plantation Company, Inc. to the Property Owners' Association as recorded in the



Office of the Clerk of Court for Beaufort County, South Carolina in Deed Book 298 at Page 1710.

3. The reservation of easements over Seabrook Farms for the purpose of installation, operation and maintenance of treated effluent lines together with certain spray rights, all as set forth in that certain deed from Hilton Head Plantation Company, Inc. to the Hilton Head Plantation Property Owners' Association, Inc. recorded in the Office of the Clerk of Court for Beaufort County, South Carolina in Deed Book 294 at Page 537.
4. The reservation of rights to easements for the installation of utilities, etc. over, along and under for those right-of-ways, together with such rights of others as set forth in that certain deed from Hilton Head Plantation Company, Inc. to the Property Owners' Association as recorded in the Office of the Clerk of Court for Beaufort County, South Carolina in Deed Book 360 at Page 384.
5. The reservation of rights to easements for the installation of utilities, etc. over, along and under for those open spaces, together with such rights of others as set forth in that certain deed from Hilton Head Plantation Company, Inc. to the Property Owners' Association as recorded in the Office of the Clerk of Court for Beaufort County, South Carolina in Deed Book 360 at Page 397.
6. The reservation of rights to easements for the installation of utilities, etc. over, along and under for those right-of-ways, together with such rights of others as set forth in that certain deed from Hilton Head Plantation Company, Inc. to the Property Owners' Association as recorded in the Office of the Clerk of Court for Beaufort County, South Carolina in Deed Book 385 at Page 220.
7. The reservation of rights to easements for the installation of utilities, etc. over, along and under for those open spaces, together with such rights of others as set forth in that certain deed from Hilton Head Plantation Company, Inc. to the Property Owners' Association as recorded in the Office of the Clerk of Court for Beaufort County, South Carolina in Deed Book 385 at Page 211.
8. The reservation of rights to easements for the installation of utilities, etc. over, along and under for those right-of-ways, together with such rights of others as set forth in that certain deed from Southeast Holding Company, Ltd. to the Hilton Head Plantation Property Owners' Association, Inc. as recorded in the Office of the Clerk of Court for Beaufort County, South Carolina in Deed Book 431 at Page 1542.

9. The reservation of rights to easements for the installation of utilities, etc. over, along and under for those open spaces, together with such rights of others as set forth in that certain deed from Southeast Holding Company, Ltd. to the Hilton Head Plantation Property Owners' Association, Inc. as recorded in the Office of the Clerk of Court for Beaufort County, South Carolina in Deed Book 431 at Page 1534.
10. Those certain rights and easements on, under, over and/or applicable to the lands comprising the Dolphin Head Golf Course as more particularly set forth within that certain deed from Southeast Holding Company, Ltd. to Dolphin Head Golf Club which deed is dated November 8, 1983 and recorded December 21, 1983 in the Office of the Clerk of Court for Beaufort County, South Carolina in Deed Book 384 at Page 895.
11. Those certain rights and easements on, under, over and/or applicable to the lands comprising the Bear Creek Golf Course as more particularly set forth within that certain deed from Hilton Head Plantation Company, Inc. to Bear Creek Golf Club which deed is dated January 12, 1982 and recorded October 27, 1982 in the Office of the Clerk of Court for Beaufort County, South Carolina in Deed Book 356 at Page 889.
12. The reservation of rights to easements for the installation of utilities, etc. and for the maintenance of drainage ways, over, along and under that certain Open Space subject to the rights of others, as set forth in that certain deed from Skull Creek Holding Corp. to Hilton Head Plantation Property Owners' Association, Inc. as recorded in the Office of the Clerk of Court for Beaufort County, South Carolina in Deed Book 432 at Page 1856.
13. That certain GRANT OF EASEMENT from Erling D. Speer and Fernwood Homeowners' Association, Inc. to Hilton Head Plantation Utilities, Inc. covering certain utility easements within "Fernwood" which GRANT OF EASEMENT is recorded in the Office of the Clerk of Court for Beaufort County, South Carolina in Deed Book 431 at Page 1132.
14. That certain BILL OF SALE from Erling D. Speer and Fernwood Homeowners' Association, Inc. to Hilton Head Plantation Utilities, Inc. pertaining to the water and sewer systems within "Fernwood" which BILL OF SALE is recorded in the Office of the Clerk of Court for Beaufort County, South Carolina in Deed Book 431 at Page 1130.
15. That certain reservation of rights for easements over and across portions of "SPRING LAKE (9.023 ac.)" for the purpose of constructing and maintaining cart bridges and cart paths over and across portions of the island lying within Spring



Lake as set forth in that certain deed from Southeast Holding Company, Ltd. to Hilton Head Property Owners' Association, Inc., as recorded in the Office of the Clerk of Court for Beaufort County, South Carolina in Deed Book 333 at Page 347.

16. That certain reservation of rights to utility, bike path, bike bridge, leisure trail and similar easements as set forth in that certain deed from Hilton Head Plantation Company, Inc. to Hilton Head Plantation Property Owners' Association, Inc. as recorded in the Office of the Clerk of Court for Beaufort County, South Carolina in Deed Book 333 at Page 347 on September 24, 1981.

FILED IN DEED BOOK 435 PAGE 1517  
FILED AT 110600 ON 11/25/85

EXHIBIT "B"

TO QUIT CLAIM DEED

SCHEDULE OF INTANGIBLES

1. All South Carolina Public Service Commission approvals and permits relating to water and sewer service matters.
2. All South Carolina Department of Health and Environmental Control approvals and permits.

RECORDED THIS 4th DAY  
 OF December 19 85  
 IN BOOK P PAGE 194  
 FEES, \$ 1.50  
May One Gray  
 AUDITOR, BEAUFORT COUNTY, S. C.

*Hughes & Winters*  
 FILED IN DEED BOOK 435 PAGE 1514  
 FILED AT 110602 ON 11/26/85 98827  
 BOOK NUMBER 435 PAGES 1507- 1514  
 FILING FEE 8.00  
 STATE STAMPS .00  
 COUNTY STAMPS .00  
 TOTAL FEES 8.00  
 HENRY JACKSON  
 CLERK OF COURT BFT CNTY, SC

10/28 22437

1025

STATE OF SOUTH CAROLINA           )  
   )  
 COUNTY OF BEAUFORT                )

LIMITED WARRANTY DEED

KNOW ALL MEN BY THESE PRESENTS, THAT BLOODY POINT ASSET CORP., a South Carolina corporation, in the State aforesaid, for and in consideration of the sum of TEN And NO/100 (\$10.00) DOLLARS, to it in hand paid at and before the sealing of these presents by MELROSE UTILITY COMPANY, INC., P. O. Box 21397, Hilton Head Island, SC 29925, in the State aforesaid, the receipt of which is hereby acknowledged, has granted, bargained, sold and released and, by these Presents does grant, bargain, sell and release unto the said MELROSE UTILITY COMPANY, INC., its Successors and Assigns, forever, the following described property, to-wit:

ALL that certain piece, parcel or tract of land situate, lying and being on Daufuskie Island, Beaufort County, South Carolina, containing 0.92 acres, more or less, and being more particularly shown and described as the PARCEL "G" on a plat of BLOODY POINT GOLF COURSE & FACILITIES prepared by Boyce L. Young, SC RLS #11079, dated May 16, 1990, and revised March 27, 1997. For a more detailed description as to courses, metes and bounds, reference may be made to said plat.

This being a portion of the same property conveyed to Grantor herein by Deed from Bloody Point Group Limited Partnership, dated February 28, 1994, and recorded April 14, 1994, in the RMC Office for Beaufort County, South Carolina, in OR Book 697 at Page 1314.

TOGETHER with all and singular, the Rights, Members, Hereditaments and Appurtenances to the said Premises belonging, or in anywise incident or appertaining.

BEAUFORT COUNTY TAX MAP REFERENCE

R 800-027-00A - 0116-0000

Dist	Map	Submap	Parcel	Block
800	27	A	86	

1026

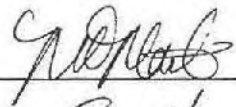
TO HAVE AND TO HOLD, all and singular, the said Premises before mentioned unto the said MELROSE UTILITY COMPANY, INC., its Successors and Assigns, forever.

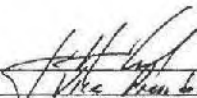
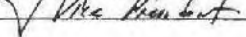
AND Grantor does hereby bind itself, its Successors and Assigns, Executors and Administrators, to warrant and forever defend, all and singular, the said Premises unto the said MELROSE UTILITY COMPANY, INC., its Successors and Assigns, only against itself and its Successors and Assigns lawfully claiming or to claim the same any part thereof, by, through or under it.

IN WITNESS WHEREOF, BLOODY POINT ASSET CORP. has caused these presents to be executed in its name this 7th day of June in the year of Our Lord One Thousand Nine Hundred Ninety-seven and in the Two Hundred Twenty-first year of the Sovereignty and Independence of the United States of America.

SIGNED, SEALED AND DELIVERED  
IN THE PRESENCE OF

BLOODY POINT ASSET CORP., a South  
Carolina corporation

  
Ed H.

By:   
Its: 

1027

STATE OF SOUTH CAROLINA )  
COUNTY OF BEAUFORT )

ACKNOWLEDGEMENT

I, the undersigned Notary Public for the State of South Carolina, do hereby certify that JAMES H. NICKER, Vice President of BLOODY POINT ASSET CORP., a South Carolina corporation, personally appeared before me this day and, in the presence of the two witnesses above named, acknowledged the due execution of the foregoing instrument.

Witness my hand and seal this 9<sup>th</sup> day of June, 1997.

Ed H  
Notary Public for South Carolina

My Commission expires: 12/14/2004

This Deed was prepared in the Law Offices of Hughes Law Firm, P.C., P. O. Box 23526, Hilton Head Island, SC 29925, by Edward M. Hughes, Esquire.

731 *Hughes*  
FILED  
JOHN A. SULLIVAN - RMC  
BEAUFORT COUNTY, S.C. */mll*  
97 JUN 16 AM 10:34  
BK 951 PG 1025  
FOLDER#

1028

RECORDED THIS 10<sup>th</sup> DAY  
OF July 19 97  
IN BOOK AD PAGE 561

*Sharon G. Perkins*  
CLERK BEAUFORT COUNTY

## HAIG POINT - DAUFUSKIE ISLAND

## ATTACHMENT 1

## DEVELOPMENT SCHEDULE

YEAR	PHASE	<u>COMMERCIAL</u>		<u>MULTI-FAMILY</u>		<u>SINGLE FAMILY</u>		<u>ACTIVE CUSTOMERS</u>		<u>AVAILABLE CUSTOMERS</u>
		<u>TOTAL DEVELOPED</u>	<u>TOTAL OCCUPIED</u>	<u>ANNUAL UNITS DEVELOPED</u>	<u>CUMULATIVE UNITS SOLD</u>	<u>ANNUAL LOTS DEVELOPED</u>	<u>CUMULATIVE LOTS SOLD</u>	<u>ANNUAL CONNECTIONS</u>	<u>CUMULATIVE CONNECTIONS</u>	<u>(UNCONNECTED) PROPERTY OWNERS</u>
1	I	2	2	36	2	150	75	2	2	77
2	II	11	13	27	28	80	164	57	59	146
3	II	-	13	51	68	80	232	80	139	174
4	II	2	15	47	112	80	300	80	219	208
5	II	-	15	47	200	80	368	80	299	284
6	III	1	16	47	243	48	436	80	379	316
7	III	-	16	47	290	-	504	80	459	351
8	III	-	16	47	338	-	518	80	539	333
9	III	-	16	47	386	-	518	80	619	501
10-12	III	-	<u>16</u>	<u>47</u>	<u>443</u>	<u>-</u>	<u>518</u>	<u>358</u>	<u>977</u>	0
TOTALS		16	16	443	443	518	518	977	977	

Year 3-6  
Based  
on an 85% Develop-  
sale ratio  
e.g. 80 Developed  
68 Sold = 85%

Connections based  
upon 1.54 housing  
starts per week -  
years 2-9.

## HAIG POINT - DAUFUSKIE ISLAND

## ATTACHMENT 2

## RAW CONSTRUCTION COST ESTIMATES

YEAR	UNITS/LOTS DEVELOPED PER YEAR	WATER DISTRIBUTION	WATER SUPPLY/TANK	TOTAL WATER	SEWAGE COLLECTION	SEWAGE TREATMENT	TOTAL SEWERAGE	TOTAL ANNUAL INVESTMENT	ACTIVE CUSTOMERS (W/S TAPS)	LOTS SOLD CUSTOMERS AVAILABLE FOR TAPS
1	188	\$419,240	\$400,000	\$819,240	\$702,180	\$489,180	\$1,191,660	\$2,000,000	2	77
2	118	263,140	-	263,140	440,730	-	440,730	700,000	59	146
3	131	292,130	400,000	692,130	489,285	155,400	644,685	1,350,000	139	174
4	129	287,670	-	287,670	481,815	-	481,815	800,000	219	208
5	127	283,210	-	283,210	474,345	93,600	567,945	850,000	299	284
6	96	214,080	-	214,080	358,560	-	358,560	600,000	379	316
7	47	104,810	-	104,810	175,545	-	175,545	280,000	459	351
8	47	104,810	-	104,810	175,545	-	175,545	280,000	539	333
9	47	104,810	-	104,810	175,545	-	175,545	280,000	619	301
10-12	<u>47</u>	<u>104,810</u>	<u>-</u>	<u>104,810</u>	<u>175,545</u>	<u>-</u>	<u>175,545</u>	<u>280,000</u>	977	0
10 YEAR TOTALS: 977		\$2,179,000	\$800,000	\$2,980,000	\$3,649,000	\$738,000	\$4,387,000	\$7,400,000		

CAPITAL COSTS PER  
LOT/CUSTOMER

W. Dist.  $\frac{\$2,179,000}{977} = \$2,230/\text{Lot}$

W. Supply  $\frac{\$800,000}{977} = \$819/\text{Lot}$

S. Collec.  $\frac{\$3,649,000}{977} = \$3,735/\text{Lot}$

S. Trt.  $\frac{\$738,000}{977} = \$755/\text{Lot}$

\$7,539/Lot



## HAIG POINT - DAUFUSKIE ISLAND

ATTACHMENT 3A

## OPERATING COSTS - WATER/SEWER SYSTEMS

I. FIXED COSTS:

	<u>Water</u>	<u>Sewer</u> **	<u>Total</u>
1. Licensed Operator	\$ 5,000	\$ 9,000	\$14,000
2. Superintendent	3,500	7,500	11,000
3. Management	2,500	4,500	7,000
4. Accounting/Clerical	2,500	1,500	4,000
5. Insurance	2,600	3,000	5,600
6. Taxes & Licenses	400	800	1,200
7. Miscellaneous	<u>800</u>	<u>800</u>	<u>1,600</u>
1986 FIXED COSTS:	\$17,300	\$27,100	\$44,400

II. OPERATING COSTS

<u>Year</u>	<u>Total # of Conn.</u>	<u>MG Annual Flow</u> *		<u>Annual Costs 1,000/Gal.</u> <u>Water @ 29¢<sup>a</sup> &amp; Sewer @ 74¢<sup>b,**</sup></u>		<u>Combined Ann. Costs</u>	<u>Fixed Costs</u>	<u>Inflation Multiplier</u>	<u>Total Annual Costs</u>
		<u>Water</u>	<u>Sewer</u>						
1	2	5.44	4.35	\$ 1,578	\$ 4,026	\$ 5,604	\$44,400	1	\$ 50,004
2	59	13.09	10.47	\$ 3,796	\$ 7,748	\$11,544	\$44,400	1.1	\$ 61,538
3	139	23.50	18.80	\$ 6,815	\$13,912	\$20,727	\$44,400	1.2	\$ 78,152
4	219	33.60	27.10	\$ 9,744	\$20,054	\$29,798	\$44,400	1.3	\$ 96,457
5	299	43.60	34.90	\$12,644	\$25,826	\$38,470	\$44,400	1.4	\$116,018
6	379	54.90	43.90	\$15,921	\$32,490	\$48,411	\$44,400	1.5	\$139,217
7	459	64.80	51.80	\$18,792	\$38,332	\$57,124	\$44,400	1.6	\$162,438
8	539	74.90	59.90	\$21,721	\$44,326	\$66,047	\$44,400	1.7	\$187,760
9	619	84.90	67.90	\$24,621	\$50,246	\$74,867	\$44,400	1.8	\$214,681
10-12	977	130.30	104.20	\$93,612	\$191,031	\$284,643	\$133,200	2.0	\$835,686

a AWWA Water Rates Manual M1, p. 31

b WPCF Financing and Charges 1973, p. 59 X 2.1 Infl.

\* Commercial Customers' usage based on 80% capacity use.

\*\* Approximately 60% of WWTP O &amp; M included in O &amp; M costs.

## ATTACHMENT 3B

HAIG POINT - DAUFUSKIE ISLAND  
DESIGN BASIS FOR WATER USAGE

TABLE 1: WASTEWATER FLOW CALCULATIONS

A	Single Family = 3.0 Per CAP x 100 gpd = 300 gpd/DU
B <sub>1</sub>	Multi-Family = 2.25 Per CAP x 100 gpd = 225 gpd/DU
B <sub>2</sub>	Multi-Family = 3.0 Per CAP x 100 gpd = 300 gpd/DU
C	Clubhouse, Tennis Cabana, Cart Barn = 7,500 gpd
D	Beach Club, Village Square = 3,700 gpd
E	Lighthouse, Community Service = 3,500 gpd
F	Inn = 80 x 100 x 85%/Occup. Rate = 6,800 gpd
G	Golf, Mntce, Equestrian Ctr. = 1,000 gpd

TABLE 2: POTABLE WATER FLOW CALCULATIONS

A	Single Family = 3.0 Per CAP x 125 gpd = 375 gpd
B <sub>1</sub>	Multi-Family = 2.5 Per CAP x 125 gpd = 313 gpd
B <sub>2</sub>	Multi-Family = 3.0 Per CAP x 125 gpd = 375 gpd
C	Clubhouse, Tennis Cabana, Cart Barn = 7,500 gpd
D	Beach Club, Village Square = 3,700 gpd
E	Lighthouse, Community Service = 3,500 gpd
F	Inn = 80 Rms. x 125 gpd x 85% = 8,500 gpd
G	Golf, Mntce., Equestrian Ctr. = 1,000 gpd

ATTACHMENT 4<sub>A</sub>

## HAIG POINT - DAUFUSKIE ISLAND

## WATER AND SEWER

## INVESTMENT CATEGORY

<u>INVESTMENT CATEGORY</u>		<u>DATE ACQUIRED</u>	<u>ANNUAL RATE DEPRECIATION</u>	<u>ORIGINAL COST</u>	<u>DEPRECIATION PROVISION</u>
I.	<u>WATER</u>				
1.	Buildings	Various	4%	\$ 90,000	\$ 3,600
2.	Tanks	Various	2%	\$ 400,000	\$ 8,000
3.	Wells	Various	2%	\$ 350,000	\$ 7,000
4.	Mains	Various	Various (3.5% Avg)	\$1,582,000	\$ 55,370
5.	Services	Various	Various (4%)	\$ 158,000	\$ 6,300
6.	Hydrants	Various	Various (4%)	\$ 317,000	\$ 9,510
7.	Miscellaneous Equipment	Various	Various (10%)	\$ 83,000	\$ 8,300
	SUB-TOTAL, WATER			\$2,980,000	\$ 98,080
II.	<u>SEWER</u>				
8.	Structures/Improvements	Various	4%	\$ 30,000	\$ 1,200
9.	Collecting System Equipment	Various	Various (4% Avg)	\$2,371,700	\$ 95,000
10.	Receiving Stations	Various	Various (3.3% Avg)	\$ 210,000	\$ 6,900
11.	Power Pumping Equipment	Various	Various (3.3% Avg)	\$ 320,000	\$ 10,600
12.	Force Mains	Various	Various (3.3% Avg)	\$ 644,500	\$ 21,270
13.	Treatment Plant & Equipment	Various	2%	\$ 738,000	\$ 14,750
14.	Miscellaneous Equipment	Various	10%	\$ 72,800	\$ 7,300
	SUB-TOTAL, SEWER			\$4,387,000	\$157,020
	TOTAL, WATER & SEWER			\$7,367,000	\$255,100
	CUMULATIVE DEPRECIATION (4 <sub>B</sub> ) @ 3.5% Depreciation Avg.			(\$ 943,952)	
	12 YEAR RESIDUAL VALUE, INCLUDING REPAYD ADVANCES			\$1,637,656	

ATTACHMENT 4<sub>b</sub>

## HAIG POINT - DAUFUSKIE ISLAND

## DEPRECIATION SCHEDULE

1. YEAR	1	2	3	4	5	6	7	8	9	10-12
2. Gross Plant - End of Year	2,000,000	2,700,000	4,050,000	4,850,000	5,700,000	6,300,000	6,580,000	6,860,000	7,140,000	7,400,000
3. Less: Non-Depreciable Land	0	0	0	0	0	0	0	0	0	0
4. Less: Advances	2,000,000	2,700,000	4,050,000	4,850,000	5,700,000	6,300,000	6,580,000	6,860,000	7,140,000	7,400,000
5. Repaid Advances*	393,104	1,020,080	1,546,688	2,113,952	2,874,608	3,431,920	4,004,160	4,262,912	4,501,760	4,785,392
6. Net Depreciable Plant	393,104	1,020,080	1,546,688	2,113,952	2,874,608	3,431,920	4,004,160	4,262,912	4,501,760	4,785,392
7. Depreciation Base	196,552	823,528	1,350,136	1,917,400	2,678,056	3,235,368	3,807,608	4,066,360	4,305,208	4,589,840
8. Depreciation @ 3.5%	6,879	28,823	47,255	67,109	93,732	113,238	133,266	142,323	150,682	160,644
9. Cumulative Depreciation	6,879	35,702	82,958	150,067	243,799	357,037	490,303	632,626	783,308	943,952
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
10. Advances Not Repaid	1,606,896	1,679,920	2,503,312	2,736,048	2,825,392	2,868,080	2,575,840	2,597,088	2,638,240	2,614,608

\* Repaid Advances = \$4,976/Lot for Sewer-Water = 66% W/S Capital Cost/(\$7,539/Lot)

## HAIG POINT - DARTMOUTH ISLAND

			10 YEAR PRO FORMA					TEST YEAR				
			YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10-12
I.	CUMULATIVE CUSTOMERS:	Water Sewer										
A.	Residential	X X	-	46	126	204	284	363	443	523	603	977
B.	Commercial (Inn/Club)	X X	2	2	2	2	2	2	2	2	2	2
C.	Commercial (Other)	X X	-	11	11	13	13	14	14	14	14	14
II.	RESIDENTIAL RATES:											
A.	Resid. Tap In Fees	X X		\$ 46,000	\$ 80,000	\$ 78,000	\$ 80,000	\$ 79,000	\$ 80,000	\$ 80,000	\$ 80,000	\$374,000
B.	Base Mo. Charge											
	\$15 to 7,500 gal.	X X		\$ 16,560	\$ 45,360	\$ 73,440	\$102,240	\$130,680	\$159,480	\$188,280	\$217,080	\$954,720
C.	Over 7,500 gal.											
	1.20/1000 gal.	X X		\$ 654	\$ 2,268	\$ 3,672	\$ 5,112	\$ 6,534	\$ 7,974	\$ 9,414	\$ 10,854	\$ 52,758
D.	Irrigation Meters											
	(Same as Water)	X		\$ 980	\$ 4,536	\$ 7,344	\$ 10,224	\$ 13,068	\$ 15,948	\$ 18,828	\$ 21,708	\$105,516
III.	COMMERCIAL RATES:											
A.	Tap Fees per Inn											
	Rm 500(W/S)	X X	\$ 40,500									
B.	Up to 1-1/2" Wtr.											
	Meter \$500	X X	\$ 11,000		\$ 2,000			\$ 1,000				
C.	2" & Larger Meter											
	\$1,500	X X	\$ 3,000									
D.	Base Monthly Charge											
	\$42 to 7,500 gal.	X X	\$ 504	\$ 6,552	\$ 6,552	\$ 7,560	\$ 7,560	\$ 8,064	\$ 8,064	\$ 8,064	\$ 8,064	\$ 24,192
E.	Over 7,500 gal. \$1.20/											
	1,000 gal.	X X	\$ 328	\$ 450	\$ 1,450	\$ 1,450	\$ 1,450	\$ 1,612	\$ 1,612	\$ 1,612	\$ 1,612	\$ 4,836
IV.	ANNUAL OPERATING REVENUES:		\$ 44,332	\$ 78,920	\$140,166	\$173,466	\$206,586	\$239,958	\$273,078	\$306,198	\$339,318	\$1,516,022
V.	OPERATING EXPENSES:											
A.	Operating Expenses		\$ 50,004	\$ 61,538	\$ 78,152	\$ 96,457	\$116,018	\$139,217	\$162,438	\$187,760	\$214,681	\$835,686
B.	Repair/Replacement Fund		0	\$ 6,364	\$ 8,240	\$ 10,269	\$ 12,540	\$ 12,540	\$ 12,540	\$ 12,540	\$ 12,540	\$ 37,620
C.	Debt Service (Variable)*		0	\$ 0	\$ 48,204	\$ 58,000	\$ 69,000	\$ 72,000	\$ 81,900	\$ 81,900	\$ 84,829	\$500,000
VI.	ANNUAL EXPENSES:		\$ 50,004	\$ 67,902	\$134,596	\$164,726	\$197,558	\$223,757	\$256,878	\$282,200	\$312,050	\$1,373,306
VII.	NET OPERATING INCOME:		\$ (5,672)	\$ 11,018	\$ 5,570	\$ 8,740	\$ 9,028	\$ 16,201	\$ 16,200	\$ 23,998	\$ 27,268	\$ 142,716

\*1st year payment schedule of \$900,000 loan @ 12%, variable payment

## ATTACHMENT 6

## HAIG POINT - DAUFUSKIE ISLAND

## PROJECTED CASH STATEMENT

A. Before Financing:

1. YEAR	1	2	3	4	5	6	7	8	9	10-12
2. Net Operating Income	(5,672)	11,018	5,570	8,740	9,028	16,201	16,200	23,998	27,268	142,710
3. Depreciation @ 3.5%	6,879	28,823	47,255	67,109	93,732	113,238	113,266	142,323	150,682	160,644
4. Less - Repaid Advances	393,104	626,976	526,608	567,264	760,656	557,312	572,240	258,752	238,848	283,632
5. Balance Before Financing	-391,897	-587,135	-473,583	-491,415	-657,896	-427,873	-422,774	-92,431	-60,898	19,722

B. Proceeds From Financing:

6. Notes Issued, Bonds*	366,423	548,972	900,000*	459,473	615,132	400,061	395,294	101,674	56,939	-
7. Stock Sold	64,663	96,877	78,141	81,083	108,553	70,599	69,758	86,423	10,148	-
8. Net Cash Flow	39,190	58,714	504,558	49,142	65,789	42,787	42,277	9,243	6,090	19,722
9. Cumulative Cash Flow	39,190	97,904	602,462	651,603	717,393	760,180	802,457	811,700	817,790	837,512

\* \$ 900,000 loan @ 12%, Variable Payment, 25 Years.

## Audit Exhibit SGS-11

**Haig Point Utility Company, Inc.**  
**Operating Experience, Rate Base and Rates of Return**  
**For the Test Year Ended June 30, 2004**  
**Combined - Present Customers**

Description	Per Company Books \$	Accounting & Pro Forma Adjustments \$		As Adjusted \$	Effect of Proposed Increase \$	After Proposed Increase \$
<b><u>Operating Revenues:</u></b>						
Water Service Revenues	98,423	0 (A)		98,423	65,074 (N)	163,497
Sewer Service Revenues	47,697	0 (A)		47,697	101,618 (N)	149,315
Availability Revenues - W & S	82,136	(82,136) (A)		0	0	0
<b><u>Total Operating Revenues</u></b>	<b><u>228,256</u></b>	<b><u>(82,136)</u></b>		<b><u>146,120</u></b>	<b><u>166,692</u></b>	<b><u>312,812</u></b>
<b><u>Operating Expenses:</u></b>						
Operating & Maintenance Expenses	185,387	(13,722) (B)		171,665	0	171,665
Administrative & General Expenses	73,454	(29,003) (C)		44,451	3,334 (O)	47,785
Depreciation & Amortization Expenses	30,296	(17,414) (D)		12,882	0	12,882
Taxes Other Than Income	0	1,827 (E)		1,827	1,396 (P)	3,223
Income Taxes	(14,775)	14,775 (F)		0	8,962 (Q)	8,962
<b><u>Total Operating Expenses</u></b>	<b><u>274,362</u></b>	<b><u>(43,537)</u></b>		<b><u>230,825</u></b>	<b><u>13,692</u></b>	<b><u>244,517</u></b>
<b><u>Total Operating Income</u></b>	<b><u>(46,106)</u></b>	<b><u>(38,599)</u></b>		<b><u>(84,705)</u></b>	<b><u>153,000</u></b>	<b><u>68,295</u></b>
Customer Growth	0	0		0	5,689	5,689
<b><u>Net Income for Return</u></b>	<b><u>(46,106)</u></b>	<b><u>(38,599)</u></b>		<b><u>(84,705)</u></b>	<b><u>158,689</u></b>	<b><u>73,984</u></b>
<b><u>Original Cost Rate Base:</u></b>						
Gross Plant in Service	4,359,264	(2,277,603) (G)		2,081,661	0	2,081,661
Accumulated Depreciation	(240,082)	11,700 (H)		(228,382)	0	(228,382)
Net Plant in Service	4,119,182	(2,265,903)		1,853,279	0	1,853,279
Construction Work In Progress	1,116,695	(1,116,695) (I)		0	0	0
Contributions in Aid of Construction	(464,000)	(1,095,480) (J)		(1,559,480)	0	(1,559,480)
Accumulated Amortization of CIAC	82,740	581,600 (K)		664,340	0	664,340
Cash Working Capital	46,097	(2,874) (L)		43,223	0	43,223
Unamortized Balances	0	0 (M)		0	0	0
<b><u>Total Rate Base</u></b>	<b><u>4,900,714</u></b>	<b><u>(3,899,352)</u></b>		<b><u>1,001,362</u></b>	<b><u>0</u></b>	<b><u>1,001,362</u></b>
<b><u>Return on Rate Base</u></b>	<b><u>-0.94%</u></b>			<b><u>-8.46%</u></b>		<b><u>7.39%</u></b>
<b><u>Interest Expense</u></b>	<b><u>0</u></b>			<b><u>37,551</u></b>		<b><u>37,551</u></b>
<b><u>Operating Margin</u></b>	<b><u>-20.20%</u></b>			<b><u>-83.67%</u></b>		<b><u>11.65%</u></b>

## Audit Exhibit SGS-11

Haig Point Utility Company, Inc.  
Operating Experience, Rate Base and Rates of Return  
For the Test Year Ended June 30, 2004  
Water - Present Customers

Description	Per Company Books \$	Accounting & Pro Forma Adjustments \$	As Adjusted \$	Proposed Increase \$	After Proposed Increase \$
<b><u>Operating Revenues:</u></b>					
Water Service Revenues	98,423	0 (A)	98,423	65,074 (N)	163,497
Availability Revenues	41,068	(41,068) (A)	0	0	0
<b><u>Total Operating Revenues</u></b>	<b>139,491</b>	<b>(41,068)</b>	<b>98,423</b>	<b>65,074</b>	<b>163,497</b>
<b><u>Operating Expenses:</u></b>					
Operating & Maintenance Expenses	87,464	26,631 (B)	114,095	0	114,095
Administrative & General	51,929	(23,357) (C)	28,572	1,301 (O)	29,873
Depreciation & Amortization Expenses	12,846	(7,178) (D)	5,668	0	5,668
Taxes Other Than Income	0	838 (E)	838	545 (P)	1,383
Income Taxes	(14,799)	14,799 (F)	0	0 (Q)	0
<b><u>Total Operating Expenses</u></b>	<b>137,440</b>	<b>11,733</b>	<b>149,173</b>	<b>1,846</b>	<b>151,019</b>
<b><u>Total Operating Income</u></b>	<b>2,051</b>	<b>(52,801)</b>	<b>(50,750)</b>	<b>63,228</b>	<b>12,478</b>
Customer Growth	0	0	0	1,039	1,039
<b><u>Net Income for Return</u></b>	<b>2,051</b>	<b>(52,801)</b>	<b>(50,750)</b>	<b>64,267</b>	<b>13,517</b>
<b><u>Original Cost Rate Base:</u></b>					
Gross Plant in Service	1,731,215	(562,207) (G)	1,169,008	0	1,169,008
Accumulated Depreciation	(106,504)	12,824 (H)	(93,680)	0	(93,680)
Net Plant in Service	1,624,711	(549,383)	1,075,328	0	1,075,328
Construction Work In Progress	1,116,695	(1,116,695) (I)	0	0	0
Contributions in Aid of Construction	(353,000)	(547,740) (J)	(900,740)	0	(900,740)
Accumulated Amort. of CIAC	63,150	404,800 (K)	467,950	0	467,950
Cash Working Capital	46,097	(17,564) (L)	28,533	0	28,533
Unamortized Balances	0	0 (M)	0	0	0
<b><u>Total Rate Base</u></b>	<b>2,497,653</b>	<b>(1,826,582)</b>	<b>671,071</b>	<b>0</b>	<b>671,071</b>
<b><u>Return on Rate Base</u></b>	<b>0.08%</b>		<b>-7.56%</b>		<b>2.01%</b>
<b><u>Interest Expense</u></b>	<b>0</b>		<b>25,165</b>		<b>25,165</b>
<b><u>Operating Margin</u></b>	<b>1.47%</b>		<b>-77.13%</b>		<b>-7.12%</b>



## Audit Exhibit SGS-11

**Haig Point Utility Company, Inc.**  
**Operating Experience, Rate Base and Rates of Return**  
**For the Test Year Ended June 30, 2004**  
**Sewer - Present Customers**

Description	Per Company Books \$	Accounting & Pro Forma Adjustments \$	As Adjusted \$	Proposed Increase \$	After Proposed Increase \$
<b><u>Operating Revenues:</u></b>					
.....	47,697	0 (A)	47,697	101,618 (N)	149,315
Availability Revenues	41,068	(41,068) (A)	0	0	0
<b><u>Total Operating Revenues</u></b>	<b>88,765</b>	<b>(41,068)</b>	<b>47,697</b>	<b>101,618</b>	<b>149,315</b>
<b><u>Operating Expenses:</u></b>					
Operating & Maintenance Expenses	97,923	(40,353) (B)	57,570	0	57,570
Administrative & General	21,525	(5,646) (C)	15,879	2,032 (O)	17,911
Depreciation & Amortization Expenses	17,450	(10,236) (D)	7,214	0	7,214
Taxes Other Than Income	0	989 (E)	989	851 (P)	1,840
Income Taxes	24	(24) (F)	0	8,962 (Q)	8,962
<b><u>Total Operating Expenses</u></b>	<b>136,922</b>	<b>(55,270)</b>	<b>81,652</b>	<b>11,845</b>	<b>93,497</b>
<b><u>Total Operating Income</u></b>	<b>(48,157)</b>	<b>14,202</b>	<b>(33,955)</b>	<b>89,773</b>	<b>55,818</b>
Customer Growth	0	0	0	4,650	4,650
<b><u>Net Income for Return</u></b>	<b>(48,157)</b>	<b>14,202</b>	<b>(33,955)</b>	<b>94,423</b>	<b>60,468</b>
<b><u>Original Cost Rate Base:</u></b>					
Gross Plant in Service	2,628,049	(1,715,397) (G)	912,652	0	912,652
Accumulated Depreciation	(133,578)	(1,124) (H)	(134,702)	0	(134,702)
Net Plant in Service	2,494,471	(1,716,521)	777,950	0	777,950
Construction Work In Progress	0	0 (I)	0	0	0
Contributions in Aid of Construction	(111,000)	(547,740) (J)	(658,740)	0	(658,740)
Accumulated Amortization of CIAC	19,590	176,800 (K)	196,390	0	196,390
Cash Working Capital	0	14,690 (L)	14,690	0	14,690
Unamortized Balances	0	0 (M)	0	0	0
<b><u>Total Rate Base</u></b>	<b>2,403,061</b>	<b>(2,072,771)</b>	<b>330,290</b>	<b>0</b>	<b>330,290</b>
<b><u>Return on Rate Base</u></b>	<b>-2.00%</b>		<b>-10.28%</b>		<b>18.31%</b>
<b><u>Interest Expense</u></b>	<b>0</b>		<b>12,386</b>		<b>12,386</b>
<b><u>Operating Margin</u></b>	<b>-54.25%</b>		<b>-97.16%</b>		<b>32.20%</b>

Haig Point Utility Company, Inc.  
Explanation of Accounting and Pro Forma Adjustments  
For the Test Year Ended June 30, 2004

Present Customers			
Description	Combined	Water	Sewer
	\$	\$	\$
<b>(A) Operating Revenues</b>			
<b>As Adjusted</b>			
1 HPUC proposes to adjust for complete system number of customers at present rates.			
Per ORS	0	0	0
Per HPUC	298,931	180,376	118,555
2 HPUC proposes to remove Availability Billing for the complete system. ORS proposes to remove Availability Fees and reclass as Contributions in Aid of Construction.			
Per ORS	(82,136)	(41,068)	(41,068)
Per HPUC	(82,136)	(41,068)	(41,068)
<b>(B) Operating and Maintenance</b>			
3 ORS proposes to adjust salary expense to reflect the 60/40 split between HPUC and Melrose Utility Company and to adjust for benefits expense which should have been allocated to Melrose Utility Company.			
Per ORS	(14,248)	29,097	(43,345)
Per HPUC	0	0	0
4 ORS proposes to adjust operating and maintenance expenses to reflect 60/40 split with Melrose Utility Company, Inc.			
Per ORS	4,307	0	4,307
Per HPUC	0	0	0
5 HPUC proposes to increase the level of wages for the current 2 employees to reflect the wages of 6 employees at test period costs at complete system. ORS reflects this expense as used for the present customer basis.			
Per ORS	0	0	0
Per HPUC	155,449	40,110	115,339
6 HPUC proposes to increase the level of repair and maintenance costs for plant facilities by the percentage of plant additions. ORS reflects this expense as used for the present customer basis.			
Per ORS	0	0	0
Per HPUC	30,955	30,955	0
7 HPUC proposes to increase the level of operating supply costs for increased system demand. ORS reflects this expense as used on a present customer basis.			
Per ORS	0	0	0
Per HPUC	152	152	0
8 HPUC proposes to increase the level of office equipment rental for increased number of customers. ORS reflects this expense as used for the present customer basis.			
Per ORS	0	0	0
Per HPUC	1,349	1,349	0

**Haig Point Utility Company, Inc.**  
**Explanation of Accounting and Pro Forma Adjustments**  
**For the Test Year Ended June 30, 2004**

<b>Present Customers</b>			
<u>Description</u>	<u>Combined</u>	<u>Water</u>	<u>Sewer</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>
9 HPUC proposes to increase the level of Power Costs for increased system demand. ORS reflects this expense as used for the present customer basis.			
Per ORS	0	0	0
Per HPUC	49,692	29,826	19,866
10 ORS proposes to remove expenses associated with installing taps. These costs are considered capital expenditures and are included in plant in service.			
Per ORS	(3,781)	(2,466)	(1,315)
Per HPUC	0	0	0
<b>Total Operating and Maintenance</b>	<b>(13,722)</b>	<b>26,631</b>	<b>(40,353)</b>

**(C) General and Administrative**

11 HPUC proposes to adjust Bad Debt Expense to reflect 2.0% of complete system revenue under present rates. ORS proposes to adjust bad debt expense to reflect 2.0% of revenue for current customers under current rates.			
Per ORS	(24,690)	(14,906)	(9,784)
Per HPUC	(18,711)	(11,298)	(7,413)
12 ORS and HPUC propose to reflect the amortization of rate case expenses. ORS proposes a 5-year amortization of actual year to date expenses and HPUC proposes a 4-year amortization of estimated expenses.			
Per ORS	8,277	4,138	4,138
Per HPUC	20,000	10,000	10,000
13 ORS proposes to remove nonallowable legal expenses from the test year.			
Per ORS	(12,590)	(12,590)	0
Per HPUC	0	0	0
<b>Total General and Administrative</b>	<b>(29,003)</b>	<b>(23,357)</b>	<b>(5,646)</b>

**(D) Depreciation and Amortization Expense**

14 HPUC proposes to reflect the annual depreciation for complete system plant in service. ORS proposes depreciation expense for the test year. ORS applies the customer utilization factor to allocate depreciation expense to current customers. Depreciation Expense was reduced by the Amortization of CIAC.			
Per ORS	(17,414)	(7,178)	(10,236)
Per HPUC	85,001	44,113	40,888

**(E) Taxes Other Than Income**

15 HPUC proposes to reflect the revenue taxes of 1.12528% on pro forma revenue under present rates. ORS proposes to reflect revenue taxes on present rates using the latest gross receipts factor of 0.83772%.			
Per ORS	1,224	825	400
Per HPUC	5,008	3,137	1,871

**Haig Point Utility Company, Inc.**  
**Explanation of Accounting and Pro Forma Adjustments**  
**For the Test Year Ended June 30, 2004**

<b>Present Customers</b>			
<u>Description</u>	<u>Combined</u> \$	<u>Water</u> \$	<u>Sewer</u> \$
16 HPUC proposes to reflect property taxes at 1.0% of pro forma plant costs. ORS proposes to adjust for actual property taxes assessed on real property for HPUC			
Per ORS	603	14	589
Per HPUC	54,759	28,479	26,280
17 HPUC propose to reflect payroll taxes for the proposed new employees. ORS reflects this expense as used on a present customer basis.			
Per ORS	0	0	0
Per HPUC	17,838	4,603	13,235
<b>Total Taxes Other Than Income</b>	<b>1,827</b>	<b>838</b>	<b>989</b>
<b>(F) Income Taxes</b>			
18 HPUC and ORS propose to adjust for state and federal income taxes for as adjusted operations. See computation of Income Taxes Schedule in Audit Exhibit SGS-11.			
Per ORS	14,775	14,799	(24)
Per HPUC	(89,699)	(11,127)	(78,572)
<b>(G) Plant In Service</b>			
19 ORS and HPUC propose to increase plant in service for the new groundwater well, elevated water storage tank, truck and wastewater treatment improvements.			
Per ORS	1,167,853	1,124,203	43,650
Per HPUC	1,116,695	1,116,695	0
20 ORS proposes to remove plant in service based on most recent system utilization factors of 40.94% for water and 34.16% for sewer. See Depreciation Schedule in Audit Exhibit SGS-11.			
Per ORS	(3,445,456)	(1,686,410)	(1,759,047)
Per HPUC	0	0	0
<b>Total Plant In Service</b>	<b>(2,277,603)</b>	<b>(562,207)</b>	<b>(1,715,397)</b>
<b>(H) Accumulated Depreciation</b>			
21 HPUC proposes to adjust accumulated depreciation for the complete system depreciation expense. ORS proposes to adjust accumulated depreciation expense for usage percentage based on the number of customers through the test year.			
Per ORS	11,700	12,824	(1,124)
Per HPUC	(1,530,898)	(774,129)	(756,769)
<b>(I) Construction Work in Progress</b>			
22 ORS and HPUC propose to remove from Construction Work In Progress costs associated with the new groundwater well and elevated water storage tank since these projects are essentially completed.			
Per ORS	(1,116,695)	(1,116,695)	0
Per HPUC	(1,116,695)	(1,116,695)	0

Haig Point Utility Company, Inc.  
Explanation of Accounting and Pro Forma Adjustments  
For the Test Year Ended June 30, 2004

Present Customers			
Description	Combined \$	Water \$	Sewer \$
<b>(J) Contributions in Aid of Construction -CIAC</b>			
23 HPUC proposes to increase Contributions in Aid of Construction to reflect the Complete System. ORS proposes to reduce rate base by cumulative test year availability fees which are considered CIAC			
Per ORS	(1,095,480)	(547,740)	(547,740)
Per HPUC	(1,251,000)	(982,000)	(269,000)
<b>(K) Amortization of Contributions in Aid of Construction</b>			
24 HPUC propose to increase the amortization of Contributions in Aid of Construction to reflect the complete system. ORS proposes to increase the amortization for cumulative availability fees			
Per ORS	581,600	404,800	176,800
Per HPUC	410,240	319,120	91,120
<b>(L) Cash Working Capital</b>			
25 HPUC and ORS propose to adjust Cash Working Capital for as adjusted expenses using the working capital ratio of 1/5 of operating and maintenance expenses. See Attached Exhibit for Cash Working Capital Adjustment			
Per ORS	(2,874)	(17,564)	14,690
Per HPUC	708	708	0
<b>(M) Unamortized Balances</b>			
26 HPUC proposes to include unamortized balances in rate base. ORS proposes only to include the expense portion and not the unamortized balances, creating a sharing of the expenses between the ratepayer and HPUC			
Per ORS	0	0	0
Per HPUC	45,000	22,500	22,500
<b>(N) Operating Revenues - Proposed Increase</b>			
27 HPUC proposes to increase operating revenues for the complete system number of customers at proposed rates. ORS proposes to increase operating revenues for present customers at proposed rates.			
Per ORS	166,692	65,074	101,618
Per HPUC	546,633	176,946	369,687
<b>(O) Bad Debt Expenses - Proposed Revenue</b>			
28 HPUC proposes to adjust bad debt expense for the proposed revenue for a complete system. ORS proposes to adjust for proposed revenue based on current customers.			
Per ORS	3,334	1,301	2,032
Per HPUC	10,936	3,541	7,395

Haig Point Utility Company, Inc.  
Explanation of Accounting and Pro Forma Adjustments  
For the Test Year Ended June 30, 2004

Present Customers			
Description	Combined	Water	Sewer
	\$	\$	\$
<b>(P) Taxes Other Than Income - Proposed Increase</b>			
29 HPUC proposes to adjust gross receipts taxes for the proposed revenue based on a complete system. ORS proposes to adjust taxes for the proposed increase for present customers.			
Per ORS	1,396	545	851
Per HPUC	6,151	1,991	4,160
<b>(Q) Income Taxes - Proposed Increase</b>			
30 HPUC proposes to reflect state and federal income taxes for the proposed revenue for a complete system. ORS proposes to reflect income taxes for the proposed revenue for present customers			
Per ORS	8,962	0	8,962
Per HPUC	150,266	42,217	108,049

## AUDIT EXHIBIT SGS-11

Haig Point Utility Company, Inc.  
Depreciation Expense Adjustment  
Test Year Ended June 30, 2004

	Combined	Water	Sewer
	\$	\$	\$
Water & Sewer Mains	3,425,672	1,377,855	2,047,817
Wells, Supply Main & Appert	353,360	353,360	0
Well #3 - Completed in 2005	377,749	377,749	0
Elevated Storage Tank-Completed in 2005	738,946	738,946	0
Tap Expenses	3,780	2,465	1,315
Outfall Main	66,704	0	66,704
<b>Total</b>	<b>4,966,211</b>	<b>2,850,375</b>	<b>2,115,836</b>
Depreciation (50 years)	2.00%	2.00%	2.00%
	<b>99,325</b>	<b>57,008</b>	<b>42,317</b>
<b>Total Wastewater Treatment Plant</b>	<b>555,864</b>	<b>0</b>	<b>555,864</b>
LESS: Fully Depreciated Assets	0	0	0
Depreciation (32 years)	3.125%	3.125%	3.125%
	<b>17,371</b>	<b>0</b>	<b>17,371</b>
<b>Vehicles</b>	<b>5,043</b>	<b>5,043</b>	<b>0</b>
LESS: Fully Depreciated Assets	0	0	0
Depreciation (6 years)	16.66%	16.66%	16.66%
	<b>840</b>	<b>840</b>	<b>0</b>
<b>Total Depreciation Expense - ORS</b>	<b>117,536</b>	<b>57,848</b>	<b>59,688</b>
<b>Capacity Adj. - Based on Customer Growth</b>		<b>40.94%</b>	<b>34.16%</b>
<b>Total Adjusted Depreciation Expense</b>	<b>44,072</b>	<b>23,683</b>	<b>20,389</b>
<b>Amortization of Contributions in Aid of Construction (CIAC)</b>			
Gross CIAC-Per Book Tap Fees & Availability	(1,559,480)	(900,740)	(658,740)
Fees to End of Test Year			
Amortization Period (50 years)	2.000%	2.000%	2.000%
<b>CIAC Amortization</b>	<b>(31,190)</b>	<b>(18,015)</b>	<b>(13,175)</b>
<b>Net Depreciation Expense</b>	<b>12,882</b>	<b>5,668</b>	<b>7,214</b>
<b>Less: Depreciation Expense- Per Books</b>	<b>30,296</b>	<b>12,846</b>	<b>17,450</b>
<b>Depreciation Expense Adjustment - ORS</b>	<b>(17,414)</b>	<b>(7,178)</b>	<b>(10,236)</b>
<b>Plant Capacity Adjustment</b>			
Plant In Service			
Water	4,966,211	2,850,375	2,115,836
Wastewater Treatment Plant	555,864	0	555,864
Vehicle	5,043	5,043	0
<b>Total Plant</b>	<b>5,527,118</b>	<b>2,855,418</b>	<b>2,671,700</b>
Capacity Adj. - Based on Customer Growth		40.94%	34.16%
Less: Current Plant based on Customer Growth	2,081,661	1,169,008	912,653
<b>Reduce Plant for Capacity</b>	<b>(3,445,457)</b>	<b>(1,686,410)</b>	<b>(1,759,047)</b>

## Audit Exhibit SGS-11

**Haig Point Utility Company, Inc.**  
**Computation of Income Taxes**  
**For the Test Year Ended June 30, 2004**

	<b>As Adjusted</b>		
	<b>Combined Operations</b>	<b>Water Operations</b>	<b>Sewer Operations</b>
Operating Revenue As Adjusted	146,120	98,423	47,697
Operating Expenses As Adjusted	<u>230,825</u>	<u>149,173</u>	<u>81,652</u>
Net Operating Income Before Taxes	(84,705)	(50,750)	(33,955)
Less: Annualized Interest Expense	<u>37,551</u>	<u>25,165</u>	<u>12,386</u>
Taxable Income - State	(122,256)	(75,915)	(46,341)
State Income Taxes @ 5%	<u>0</u>	<u>0</u>	<u>0</u>
Taxable Income - Federal	0	0	0
Federal Income Taxes - 1st 50,000 @ 15%	0	0	0
Next \$25,000 @25%	0	0	0
Next \$25,000 @34%	0	0	0
Total State and Federal Income Taxes	0	0	0
Less: Income Taxes Per Book	<u>(14,775)</u>	<u>(14,799)</u>	<u>24</u>
Adjustment	<u>14,775</u>	<u>14,799</u>	<u>(24)</u>
	<b>After Proposed Increase</b>		
	<b>Combined Operations</b>	<b>Water Operations</b>	<b>Sewer Operations</b>
Operating Revenue After Proposed Increase	312,812	163,497	149,315
Operating Expenses After Proposed Increase	<u>235,555</u>	<u>151,020</u>	<u>84,535</u>
Net Operating Income Before Taxes	77,257	12,477	64,780
Less: Annualized Interest Expense	<u>37,551</u>	<u>25,165</u>	<u>12,386</u>
Taxable Income - State	39,706	(12,688)	52,394
State Income Taxes @ 5%	<u>2,620</u>	<u>0</u>	<u>2,620</u>
Taxable Income - Federal	37,086	(12,688)	49,774
Federal Income Taxes - 1st 50,000 @ 15%	6,342	0	6,342
Next \$25,000 @25%	0	0	0
Next \$25,000 @34%	0	0	0
\$100,000 - \$335,000 @ 39%	0	0	0
Over \$335,000 @ 34%	<u>0</u>	<u>0</u>	<u>0</u>
Total State and Federal Income Taxes	8,962	0	8,962
Less: Income Taxes As Adjusted	<u>0</u>	<u>0</u>	<u>0</u>
Adjustment	<u>8,962</u>	<u>0</u>	<u>8,962</u>

Combined Federal Income Taxes allocated between water and sewer based on percentage of Federal Taxable Income.



## Audit Exhibit SGS-11

**Haig Point Utility Company, Inc.  
Customer Growth Computation  
Test Year Ended June 30, 2004**

	(1)	(2)	(3)
<b>Combined Operations:</b>			
<u>Description</u>	<u>As</u>	<u>Effect of</u>	<u>After</u>
	<u>Adjusted</u>	<u>Proposed</u>	<u>Increase</u>
	\$	\$	\$
Water Customer Growth	(4,227)	5,267	1,039
Sewer Customer Growth	(2,828)	7,478	4,650
Combined Customer Growth	(7,055)	12,745	5,689

Number of Customers:

Beginning	396	<b>Formula:</b>			
Ending	468	Ending - Average	=	36	= 8.33%
Average	432	Average		432	

**Water Operations:**

Net Operating Income	(50,750)	63,228	12,478
Growth Factor	8.33%	8.33%	8.33%
Customer Growth	(4,227)	5,267	1,039

Number of Customers:

Beginning	198	<b>Formula:</b>			
Ending	234	Ending - Average	=	18	= 8.33%
Average	216	Average		216	

**Sewer Operations:**

Net Operating Income	(33,955)	89,773	55,818
Growth Factor	8.33%	8.33%	8.33%
Customer Growth	(2,828)	7,478	4,650

Number of Customers:

Beginning	198	<b>Formula:</b>			
Ending	234	Ending - Average	=	18	= 8.33%
Average	216	Average		216	

**Note: Combined Customer Growth equals Water plus Sewer Customer Growth**

## Audit Exhibit SGS-11

**Haig Point Utility Company, Inc.**  
**Cash Working Capital Allowance**  
**For the Test Year Ended June 30, 2004**

	<u>Combined Operations</u>	<u>Water Operations</u>	<u>Sewer Operations</u>
Operating and Maintenance - As Adjusted	171,665	114,095	57,570
General and Administrative - As Adjusted	<u>44,451</u>	<u>28,572</u>	<u>15,879</u>
Total Expenses for Computation	216,116	142,667	73,449
Allowable Rate (1/5 of O & M)	<u>20.00%</u>	<u>20.00%</u>	<u>20.00%</u>
Computed Cash Working Capital - As Adjusted	43,223	28,533	14,690
Cash Working Capital - Per Company	<u>46,097</u>	<u>46,097</u>	<u>0</u>
<b>Cash Working Capital Adjustment - ORS</b>	<b><u>(2,874)</u></b>	<b><u>(17,564)</u></b>	<b><u>14,690</u></b>
Cash Working Capital Adjustment - HPUC	<u>708</u>	<u>708</u>	<u>0</u>

**Haig Point Utility Company, Inc.**  
**Return On Common Equity**  
**Capital Structure at June 30, 2004**

**Water**

Description	Capital Structure	Ratio	-----As Adjusted-----			-----After Proposed Increase-----			Income For Return
			Rate Base	Embedded Cost/Return	Overall Cost/Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	
	\$	%	\$	%	%	\$	\$	%	\$
Long-Term Debt	1,923,650	50.00%	335,536	7.50%	3.75%	25,165	335,536	7.50%	25,165
Common Equity	1,923,650	50.00%	335,536	-22.62%	-11.31%	(75,915)	335,535	-3.47%	(11,648)
Totals	3,847,300	100.00%	671,071		-7.56%	(50,750)	671,071	2.02%	13,517

**Sewer**

Description	Capital Structure	Ratio	-----As Adjusted-----			-----After Proposed Increase-----			Income For Return
			Rate Base	Embedded Cost/Return	Overall Cost/Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	
	\$	%	\$	%	%	\$	\$	%	\$
Long-Term Debt	1,923,650	50.00%	165,145	7.50%	3.75%	12,386	165,145	7.50%	12,386
Common Equity	1,923,650	50.00%	165,145	-28.06%	-14.03%	(46,341)	165,145	29.12%	48,082
Totals	3,847,300	100.00%	330,290		-10.28%	(33,955)	330,290	18.31%	60,468

**Combined**

Description	Capital Structure	Ratio	-----As Adjusted-----			-----After Proposed Increase-----			Income For Return
			Rate Base	Embedded Cost/Return	Overall Cost/Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	
	\$	%	\$	%	%	\$	\$	%	\$
Long-Term Debt	1,923,650	50.00%	500,681	7.50%	3.75%	37,551	500,681	7.50%	37,551
Common Equity	1,923,650	50.00%	500,681	-24.42%	-12.21%	(122,256)	500,681	7.28%	36,433
Totals	3,847,300	100.00%	1,001,362		-8.46%	(84,705)	1,001,362	7.39%	73,984

Audit Exhibit SGS-11

# **CONFIDENTIAL EXHIBIT CEL-R6**